XL Insurance Reinsurance

XL
Bermuda Ltd

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

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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**

(US Dollars in thousands) 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

Notes	*(US Dollars in thousands)*	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

(US Dollars in thousands)	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)**
Split between:		
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)**
Split between:		
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				Attributable to shareholder					
					Other reserves					
(US Dollars in thousands, except for number of shares and nominal value)	Number of shares	Nominal value	Share Capital	Capital in excess of nominal value	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
Shareholder's equity opening January 1, 2021	**12,500,000**	**0.10**	**1,250**	**14,488,894**	**2,296,523**	**31,847**	**172,062**	**(3,768,636)**	**13,221,940**	**16,112**
Capital contributions from parent	—	—	—	15,511	—	—	—	—	15,511	—
Others (including impact on change in scope)	—	—	—	(12,143)	905	—	(11,339)	11,504	(11,073)	(47,334)
Impact of transactions with shareholder	**—**	**—**	**—**	**3,368**	**905**	**—**	**(11,339)**	**11,504**	**4,438**	**(47,334)**
Reserves relating to changes in fair value through shareholder's equity	—	—	—	—	(1,252,445)	(11,921)	—	—	(1,264,366)	7,082
Translation reserves	—	—	—	—	—	—	(154,650)	—	(154,650)	—
Employee benefits actuarial gains and losses	—	—	—	—	—	—	—	43,099	43,099	—
Net consolidated income (loss)	—	—	—	—	—	—	—	1,286,331	1,286,331	26,678
Total Comprehensive Income (Loss)	**—**	**—**	**—**	**—**	**(1,252,445)**	**(11,921)**	**(154,650)**	**1,329,430**	**(89,586)**	**33,760**
Shareholder's equity closing December 31, 2021	**12,500,000**	**0.10**	**1,250**	**14,492,262**	**1,044,983**	**19,926**	**6,072**	**(2,427,702)**	**13,136,793**	**2,538**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	Share Capital			
(US Dollars in thousands, except for number of shares and nominal value)	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
Shareholder's equity opening January 1, 2020	**1,367,571**	**(670)**	**87,062**	**(1,734,208)**	**13,209,899**	**29,888**
Capital contributions from parent	—	—	—	—	1,000,000	—
Others (including impact on change in scope) (a)	—	—	(62,220)	130,351	68,131	2,554
Impact of transactions with shareholder	**—**	**—**	**(62,220)**	**130,351**	**1,068,131**	**2,554**
Reserves relating to changes in fair value through shareholder's equity	928,952	32,517	—	—	961,468	(8,912)
Translation reserves	—	—	147,219	—	147,219	—
Employee benefits actuarial gains and losses	—	—	—	(26,580)	(26,580)	—
Net consolidated income	—	—	—	(2,138,198)	(2,138,198)	(7,418)
Total Comprehensive Income	**928,952**	**32,517**	**147,219**	**(2,164,778)**	**(1,056,090)**	**(16,331)**
Shareholder's equity closing December 31, 2020	**2,296,523**	**31,847**	**172,062**	**(3,768,636)**	**13,221,940**	**16,112**

CONSOLIDATED STATEMENT OF CASH FLOWS

(US Dollars in thousands)	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)**

(US Dollars in thousands)	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 as 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 incepted 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.

(Foreign currency in USD thousands)	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	
Investment Portfolio Sensitivities	**Amount**	**Percentage**	**Amount**	**Percentage**
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:

	Percentage of Total	
Investment Portfolio by Credit Rating Category	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.

	December 31, 2021				December 31, 2020			
(US Dollars in thousands)	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

(US Dollars in thousands)	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:

(US Dollars in thousands)	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:

	Intangible assets recognized in business combinations and other business operations		Other intangible assets	
(US Dollars in thousands)	Indefinite Life (a)	Definite Life	Definite Life	Total
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.

	Investments as per Consolidated Statement of Financial Position					
	December 31, 2021			December 31, 2020		
(US Dollars in thousands)	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
(US Dollars in thousands)	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					
(US Dollars in thousands)	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					
(US Dollars in thousands)	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:

	December 31, 2021			December 31, 2020		
(US Dollars in thousands)	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):

	December 31, 2021	December 31, 2020
(US Dollars in thousands)	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).

	December 31, 2021				
(US Dollars in thousands)	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.

	December 31, 2020				
(US Dollars in thousands)	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:

	December 31, 2021				
	Assets quoted in an active market excluding derivatives	Assets not quoted in an active market or no active market excluding derivatives			
(US Dollars in thousands)	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**

	December 31, 2020				
	Assets quoted in an active market excluding derivatives	Assets not quoted in an active market or no active market excluding derivatives			
(US Dollars in thousands)	Fair value determined directly by reference to active market excluding derivatives (level 1)	Fair value mainly based on observable market data excluding derivatives (level 2)	Fair value mainly not based on observable market data excluding derivatives (level 3)	Total excluding derivatives	Total including derivatives
Debt instruments	—	36,617,923	—	36,617,923	36,615,711
Equity instruments	368,762	19,276	185,559	573,596	573,569
Non-consolidated investment funds	—	291,781	834,172	1,125,953	1,125,953
Financial investments and loans available for sale	**368,762**	**36,928,980**	**1,019,731**	**38,317,473**	**38,315,233**
Debt instruments	—	3,537,870	—	3,537,870	3,542,097
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

	December 31, 2021				
	Assets quoted in an active market	Assets not quoted in an active market or no active market			
(US Dollars in thousands)	Fair value determined directly by reference to active market (level 1)	Fair value mainly based on observable market data (level 2)	Fair value mainly not based on observable market data (level 3)	Total excluding derivatives	Total including derivatives
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**

	December 31, 2020				
	Assets quoted in an active market	Assets not quoted in an active market or no active market			
(US Dollars in thousands)	Fair value determined directly by reference to active market (level 1)	Fair value mainly based on observable market data (level 2)	Fair value mainly not based on observable market data (level 3)	Total excluding derivatives	Total including derivatives
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.

	December 31, 2021				December 31, 2020			
	Fail the SPPI test		Pass the SPPI test		Fail the SPPI test		Pass the SPPI test	
(US Dollars in thousands)	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.

	December 31, 2021						
	Fair value of debt instruments that pass the SPPI test						
(US Dollars in thousands)	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**

	December 31, 2020						
	Fair value of debt instruments that pass the SPPI test						
(US Dollars in thousands)	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.

	December 31, 2021	December 31, 2020
(US Dollars in thousands)	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

	December 31, 2021				December 31, 2020			
(US Dollars in thousands)	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:

(US Dollars in thousands)	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:

(US Dollars in thousands)	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:

	December 31, 2021			December 31, 2020		
(US Dollars in thousands)	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
(US Dollars in thousands)	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
(US Dollars in thousands)	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 on 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							
(US Dollars in thousands)	For the years ended						
Accident Year	**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							
(US Dollars in thousands)	For the years ended						
Accident Year	**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:

(US Dollars in thousands)	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
(US Dollars in thousands)	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			
(US Dollars in thousands)	**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**
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:

(US Dollars in thousands)	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.

(US Dollars in thousands)	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)**
of which deferred tax through Profit and Loss	*977,926*	*616,269*	*361,657*	*339,424*
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	*25,068*	*197,066*	*(171,998)*	*(379,195)*
of which deferred tax through other equity reserves	*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).

(US Dollars in thousands)	December 31, 2021	December 31, 2020
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).

	2021									
(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	—	—	—	—	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
	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

	Maturity of notional amount as of December 31, 2021 (a)			Notional amount		Positive fair value		Negative fair value		Net fair value	
(US Dollars in thousands)	< 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:

	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	
(US Dollars in thousands)	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									
	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	
(US Dollars in thousands)	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		
(US Dollars in thousands)	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
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

(US Dollars in thousands)	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				
(US Dollars in thousands)	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
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				
(US Dollars in thousands)	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
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:

(US Dollars in thousands)	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

(US Dollars in thousands)	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**

(US Dollars in thousands)	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**

(US Dollars in thousands)	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.

(US Dollars in thousands)	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.

(US Dollars in thousands)	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.

(US Dollars in thousands)	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:

(US Dollars in thousands)	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

(US Dollars in thousands)	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

	December 31, 2021					December 31, 2020
	Expiring date					
(US Dollars in thousands)	12 months or less	More than 1 year up to 3 years	More than 3 years up to 5 years	More than 5 years	Total	Total
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).