XL Group Ltd

Financial Condition Report
("FCR")

31 December 2017

forming part of the annual regulatory reporting package submitted to the Bermuda Monetary Authority ("BMA") by 31 May 2018
Declaration Statement

To the best of our knowledge and belief, the financial condition report fairly represents the financial condition of XL Group Ltd as at December 31, 2017 in all material respects.

Michael S. McGavick
Chief Executive Officer
May 31, 2018

Fielding Norton
Chief Enterprise Risk Officer
May 31, 2018
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Appendix 1 – XL Group Ltd Structure Chart
Summary

This Financial Condition Report has been prepared in line with the requirements of the Insurance (Group Supervision) Rules 2011 and incorporates consolidated information of the XL Group Ltd ("XL", the "Company", "XL Group", "XLG", or "Group") group of companies. In 2016 XL completed a redomestication transaction and became a Bermuda insurance group with the Bermuda Monetary Authority as its group supervisor.

The Company, through its global operating subsidiaries, is a leading provider of insurance and reinsurance coverages to industrial, commercial and professional firms, insurance companies and other enterprises on a worldwide basis. The Company and its various operating subsidiaries operate in 29 countries, through its two business segments: Insurance and Reinsurance.

A. Business and Performance

This section provides particulars regarding organisational structure, insurance business activities and financial performance. Please refer to XL's Form 10-K for the year ended December 31, 2017, filed with the U.S. Securities and Exchange Commission (the "SEC") on February 23, 2018 (the "Original Form 10-K"), including the amendment thereto filed on April 6, 2018 (the “2017 Form 10-K/A and, together with the original Form 10-K, the "2017 Form 10-K"), including the Risk Factors included therein, for more information about XL Group Ltd.

A copy of the 2017 Form 10-K filings is available here:

https://investor.xlgroup.com/sec-filings/sec-filing/10-k/0000875159-18-000015 (the Original Form 10-K)

https://www.sec.gov/Archives/edgar/data/875159/000087515918000036/xlgroup-10xka_2017.htm (the Form 10-K/A)

A.1. Name of insurance group

XL Group Ltd group of companies

A.2. Group Supervisor

<table>
<thead>
<tr>
<th>Group Supervisor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name: Bermuda Monetary Authority, BMA House, 43 Victoria Street, Hamilton HM 12 Bermuda</td>
</tr>
<tr>
<td>Jurisdiction: Bermuda</td>
</tr>
<tr>
<td>Email Address: <a href="mailto:Insuranceinfo@bma.bm">Insuranceinfo@bma.bm</a></td>
</tr>
<tr>
<td>Phone Number: 441-295-5278</td>
</tr>
</tbody>
</table>

A.3. Approved group auditor

| Organisation: PricewaterhouseCoopers LLP |
| Name: John Fosbenner (Partner) |
| Jurisdiction: USA |
| Email Address: john.fosbenner@pwc.com |
| Phone Number: 267-330-2443 |
A.4. Ownership details

Our common shares, $0.01 par value per share, are listed on the NYSE and the Bermuda Stock Exchange under the symbol "XL."

The number of record holders of XL common shares at December 31, 2017 was 749. This figure does not represent the actual number of beneficial owners of XL's common shares because such shares are frequently held in "street name" by securities dealers and others for the benefit of individual owners who may vote the shares.

A.5. Group structure

See Appendix 01 – XL Group Ltd Structure Chart

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

The following tables summarize the Company's gross premium written and net premiums written by line of business for the year ended December 31, 2017 and 2016:

2017 GROSS PREMIUMS WRITTEN

(U.S. dollars in thousands)

<table>
<thead>
<tr>
<th></th>
<th>Insurance</th>
<th>Reinsurance</th>
<th>Corporate and Other (Note 1)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>P&amp;C Operations:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional</td>
<td>$ 1,935,550</td>
<td>$ 292,128</td>
<td>$</td>
<td>2,227,678</td>
</tr>
<tr>
<td>Casualty</td>
<td>3,333,239</td>
<td>623,935</td>
<td>3,957,174</td>
<td></td>
</tr>
<tr>
<td>Property catastrophe</td>
<td>—</td>
<td>1,031,740</td>
<td>1,031,740</td>
<td></td>
</tr>
<tr>
<td>Property</td>
<td>2,352,714</td>
<td>1,304,341</td>
<td>3,657,055</td>
<td></td>
</tr>
<tr>
<td>Specialty</td>
<td>2,446,642</td>
<td>207,002</td>
<td>2,653,644</td>
<td></td>
</tr>
<tr>
<td>Other (Note 2)</td>
<td>2,318</td>
<td>1,222,964</td>
<td>1,225,282</td>
<td></td>
</tr>
<tr>
<td>Total P&amp;C operations</td>
<td>10,070,463</td>
<td>4,682,110</td>
<td>14,752,573</td>
<td></td>
</tr>
<tr>
<td>Corporate and Other :</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Run-Off Life Operations - Annuity</td>
<td>107,230</td>
<td>107,230</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Run-Off Life Operations - Other Life</td>
<td>127,048</td>
<td>127,048</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Corporate and Other</td>
<td>234,278</td>
<td>234,278</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$ 10,070,463</td>
<td>$ 4,682,110</td>
<td>$ 234,278</td>
<td>$ 14,986,851</td>
</tr>
</tbody>
</table>

(Note 1)
### 2016 Gross Premiums Written

(U.S. dollars in thousands)

<table>
<thead>
<tr>
<th></th>
<th>Insurance</th>
<th>Reinsurance</th>
<th>Corporate and Other (Note 1)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>P&amp;C Operations:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional</td>
<td>$1,947,818</td>
<td>$138,830</td>
<td>$</td>
<td>$2,086,648</td>
</tr>
<tr>
<td>Casualty</td>
<td>2,911,430</td>
<td>718,080</td>
<td></td>
<td>3,629,510</td>
</tr>
<tr>
<td>Property catastrophe</td>
<td>—</td>
<td>987,417</td>
<td></td>
<td>987,417</td>
</tr>
<tr>
<td>Property</td>
<td>2,424,846</td>
<td>1,134,445</td>
<td></td>
<td>3,559,291</td>
</tr>
<tr>
<td>Specialty</td>
<td>2,356,173</td>
<td>210,531</td>
<td></td>
<td>2,566,704</td>
</tr>
<tr>
<td>Other (Note 2)</td>
<td>10,236</td>
<td>785,803</td>
<td></td>
<td>796,039</td>
</tr>
<tr>
<td>Total P&amp;C operations</td>
<td>9,650,503</td>
<td>3,975,106</td>
<td></td>
<td>13,625,609</td>
</tr>
<tr>
<td>Corporate and Other:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Run-Off Life Operations - Annuity</td>
<td></td>
<td></td>
<td>119,990</td>
<td>119,990</td>
</tr>
<tr>
<td>Run-Off Life Operations - Other Life</td>
<td></td>
<td></td>
<td>145,325</td>
<td>145,325</td>
</tr>
<tr>
<td>Total Corporate and Other</td>
<td></td>
<td></td>
<td>265,315</td>
<td>265,315</td>
</tr>
<tr>
<td>Total</td>
<td>$9,650,503</td>
<td>$3,975,106</td>
<td>$265,315</td>
<td>$13,890,924</td>
</tr>
</tbody>
</table>

### 2017 Net Premiums Written

(U.S. dollars in thousands)

<table>
<thead>
<tr>
<th></th>
<th>Insurance</th>
<th>Reinsurance</th>
<th>Corporate and Other (Note 1)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>P&amp;C Operations:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional</td>
<td>$1,297,741</td>
<td>$276,669</td>
<td>$</td>
<td>$1,574,410</td>
</tr>
<tr>
<td>Casualty</td>
<td>2,027,101</td>
<td>580,974</td>
<td></td>
<td>2,608,075</td>
</tr>
<tr>
<td>Property catastrophe</td>
<td>—</td>
<td>608,262</td>
<td></td>
<td>608,262</td>
</tr>
<tr>
<td>Property</td>
<td>1,560,957</td>
<td>1,166,405</td>
<td></td>
<td>2,727,362</td>
</tr>
<tr>
<td>Specialty</td>
<td>1,816,860</td>
<td>180,422</td>
<td></td>
<td>1,997,282</td>
</tr>
<tr>
<td>Other (Note 2)</td>
<td>1,889</td>
<td>1,151,144</td>
<td></td>
<td>1,153,033</td>
</tr>
<tr>
<td>Total P&amp;C operations</td>
<td>6,704,548</td>
<td>3,963,876</td>
<td></td>
<td>10,668,424</td>
</tr>
<tr>
<td>Corporate and Other:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Run-Off Life Operations - Annuity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Run-Off Life Operations - Other Life</td>
<td></td>
<td></td>
<td>12,334</td>
<td>12,334</td>
</tr>
<tr>
<td>Total Corporate and Other</td>
<td></td>
<td></td>
<td>12,334</td>
<td>12,334</td>
</tr>
<tr>
<td>Total</td>
<td>$6,704,548</td>
<td>$3,963,876</td>
<td>$12,334</td>
<td>$10,680,758</td>
</tr>
</tbody>
</table>
### 2016 NET PREMIUMS WRITTEN

*(U.S. dollars in thousands)*

<table>
<thead>
<tr>
<th></th>
<th>Insurance</th>
<th>Reinsurance</th>
<th>Corporate and Other (Note 1)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>P&amp;C Operations:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional</td>
<td>$1,352,001</td>
<td>$137,287</td>
<td>$</td>
<td>$1,489,288</td>
</tr>
<tr>
<td>Casualty</td>
<td>1,891,422</td>
<td>678,133</td>
<td></td>
<td>2,569,555</td>
</tr>
<tr>
<td>Property catastrophe</td>
<td>—</td>
<td>756,837</td>
<td></td>
<td>756,837</td>
</tr>
<tr>
<td>Property</td>
<td>1,671,812</td>
<td>995,090</td>
<td></td>
<td>2,666,902</td>
</tr>
<tr>
<td>Specialty</td>
<td>1,793,148</td>
<td>188,350</td>
<td></td>
<td>1,981,498</td>
</tr>
<tr>
<td>Other (Note 2)</td>
<td>7,586</td>
<td>758,970</td>
<td></td>
<td>766,556</td>
</tr>
<tr>
<td><strong>Total P&amp;C operations</strong></td>
<td>6,715,969</td>
<td>3,514,667</td>
<td></td>
<td>10,230,636</td>
</tr>
<tr>
<td><strong>Corporate and Other :</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Run-Off Life Operations - Annuity</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Run-Off Life Operations - Other Life</td>
<td>12,047</td>
<td>12,047</td>
<td>12,047</td>
<td>12,047</td>
</tr>
<tr>
<td><strong>Total Corporate and Other</strong></td>
<td>12,047</td>
<td>12,047</td>
<td>12,047</td>
<td>12,047</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$6,715,969</td>
<td>$3,514,667</td>
<td>$12,047</td>
<td>$10,242,683</td>
</tr>
</tbody>
</table>

Notes:

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

2. Other within the Insurance segment includes: surety, structured indemnity and certain other discontinued lines. Other within the Reinsurance segment includes: whole account contracts, credit and surety, accident and health and other lines.

The following table shows an analysis of the Company’s net premiums written by geographical location of the subsidiary where the premium is written for the years ended December 31, 2017 and 2016:

*(U.S. dollars in thousands)*

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>P&amp;C Operations:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bermuda</td>
<td>1,708,516</td>
<td>1,267,613</td>
</tr>
<tr>
<td>United States</td>
<td>3,402,417</td>
<td>3,575,969</td>
</tr>
<tr>
<td>Europe</td>
<td>4,805,988</td>
<td>4,778,299</td>
</tr>
<tr>
<td>Other</td>
<td>751,503</td>
<td>608,755</td>
</tr>
<tr>
<td><strong>Total P&amp;C Operations</strong></td>
<td>10,668,424</td>
<td>10,230,636</td>
</tr>
<tr>
<td><strong>Corporate and Other:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bermuda</td>
<td>11,801</td>
<td>12,194</td>
</tr>
<tr>
<td>Europe</td>
<td>533</td>
<td>(147)</td>
</tr>
<tr>
<td><strong>Total Corporate and Other</strong></td>
<td>12,334</td>
<td>12,047</td>
</tr>
</tbody>
</table>
### A.7. Performance of investments and material income and expenses for the reporting period

#### A.7.1. Performance of investments for the reporting period

The following table shows the fair market value of the fixed maturity portfolio (both quoted and unquoted) and the performance (i.e. returns calculated using mark to market valuation methodology) of those investments for the years ended December 31, 2017 and 2016:

<table>
<thead>
<tr>
<th>(U.S. dollars in thousands)</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Market Value</td>
<td>Performance %</td>
</tr>
<tr>
<td>(1) U.S. Government</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) U.S. Government Federal</td>
<td>4,351,175</td>
<td>0.94%</td>
</tr>
<tr>
<td>(b) U.S. Government Agency - mortgage-backed securities</td>
<td>4,801,559</td>
<td>2.88%</td>
</tr>
<tr>
<td>(c) U.S. Government Agency - other</td>
<td>711,904</td>
<td>1.56%</td>
</tr>
<tr>
<td>(2) Non-U.S. Government States, Municipalities, and Political Subdivision</td>
<td>6,386,946</td>
<td>2.48%</td>
</tr>
<tr>
<td>(3) Subdivision</td>
<td>2,064,671</td>
<td>3.66%</td>
</tr>
<tr>
<td>(4) Corporate Securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) U.S. Government-backed Corporate</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(b) Non-U.S. Government-backed Corporate</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(c) FDIC Guaranteed Corporate</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(d) Other Corporate</td>
<td>12,532,446</td>
<td>3.62%</td>
</tr>
<tr>
<td>(5) Asset-backed Securities</td>
<td>1,728,954</td>
<td>5.23%</td>
</tr>
<tr>
<td>(6) Mortgage-backed Securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Residential Subprime</td>
<td>17,622</td>
<td>13.51%</td>
</tr>
<tr>
<td>(b) Residential Non-subprime</td>
<td>80,881</td>
<td>15.36%</td>
</tr>
<tr>
<td>(c) Commercial</td>
<td>1,199,656</td>
<td>4.13%</td>
</tr>
<tr>
<td>(7) Mutual Funds</td>
<td>156,420</td>
<td>-</td>
</tr>
<tr>
<td>(8) Bank Loans</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Catastrophe Bonds and Insurance-Linked Securities</td>
<td>32,799</td>
<td>-</td>
</tr>
<tr>
<td>(9) Others (NICO Promissory Notes - 5.24% and Lloyd's Overseas Deposits - 2.07%)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL PORTFOLIO</td>
<td>34,065,033</td>
<td>-</td>
</tr>
</tbody>
</table>

#### A.7.2. Material income and expenses for the reporting period

The Company's main revenue is premiums and its major expenses arise from claims losses. For the years ended December 31, 2017 and 2016, the Company realized a P&C combined ratio of 108.3% and 94.2% respectively, which includes natural catastrophe pre-tax losses net of reinsurance and reinstatement premiums ("Nat Cats") of $2,014.8 million and $636.3 million or 19.6 and 6.6 loss ratio points, respectively.

The Company also realized favourable prior year development ("PYD") on losses of $147.8 million and $301.5 million during the years ended December 31, 2017 and 2016, respectively. The combined ratio excluding the impact of the Nat Cats and PYD was 90.2% and 90.7% for the years ended December 31, 2017 and 2016, respectively.
The material expense items are as follows:

<table>
<thead>
<tr>
<th>Expense Type</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net losses and loss expenses incurred - P&amp;C operations</td>
<td>8,001,920</td>
<td>6,072,835</td>
</tr>
<tr>
<td>Claims and policy benefits - run-off Life operations</td>
<td>39,189</td>
<td>28,244</td>
</tr>
<tr>
<td>Acquisition costs</td>
<td>1,788,140</td>
<td>1,620,671</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>1,757,059</td>
<td>2,063,362</td>
</tr>
<tr>
<td>Other</td>
<td>236,561</td>
<td>193,097</td>
</tr>
<tr>
<td></td>
<td><strong>11,822,869</strong></td>
<td><strong>9,978,209</strong></td>
</tr>
</tbody>
</table>

**A.8. Other material information**

XL has entered into a definitive agreement and plan of merger with AXA SA dated March 5, 2018, under which AXA would acquire 100% of XL’s common shares. Please see Section C.6 for additional details of this proposed merger agreement.

For the year ended December 31, 2017, there is no other material information regarding business and performance required to be disclosed for purposes of this Financial Condition Report.

**B. Governance Structure**

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

**B.1. Board and Senior Executive**

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

**Directors**

All directors are elected annually and (as at December 31, 2017) ten of the eleven directors were independent non-executive directors.

Key qualifications for Board members include:

- Personal qualities and characteristics, including superior business judgement, integrity, highest standards of ethical conduct and distinction in the director’s chosen field of endeavor;
- An individual's qualification as independent;
- Current knowledge of and experience in the areas of insurance, reinsurance, financial services or other aspects of the Company’s business operations or activities;
- Diversity of viewpoints, skills, experience, backgrounds, orientations and other demographics in the context of the needs of the board; and
- Such other attributes and external factors deemed appropriate.

The Board is responsible for overseeing the business and affairs of the Company and is instrumental in developing and approving the Company’s long-term strategy and overseeing the execution of the Company’s strategic plan. Through the Audit Committee, the Board oversees the quality and integrity of the Company’s annual and quarterly financial statements, including the Company’s system of internal control over financial reporting. The Board also oversees the Company’s enterprise risk management activities with assistance from committees of the Board comprised solely of independent non-executive directors, including the Risk and Finance Committee.
The Board has a preference for the separation of the office of Chairman of the Board from that of the CEO. The Board believes that this structure is appropriate at this time but that it should be regularly reviewed as part of its succession planning process as appropriate. The independent Chairman of our Board has key responsibilities that include: setting the Board calendar and agendas for Board meetings in coordination with XL’s CEO; chairing Board meetings and Annual General Meetings of shareholders; leading full Board discussions and presiding over executive sessions; working closely with the Nominating, Governance and External Affairs Committee, overseeing XL’s Director recruitment, refreshment and evaluation processes; and communicating with shareholders and other key constituents, as appropriate.

Directors at December 31, 2017

<table>
<thead>
<tr>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ramani Ayer</td>
</tr>
<tr>
<td>Dale Comey</td>
</tr>
<tr>
<td>Claus-Michael Dill</td>
</tr>
<tr>
<td>Robert R. Glauber</td>
</tr>
<tr>
<td>Edward J. Kelly, III</td>
</tr>
<tr>
<td>Joseph Mauriello</td>
</tr>
<tr>
<td>Michael S. McGavick</td>
</tr>
<tr>
<td>James Nevels</td>
</tr>
<tr>
<td>Eugene M. McQuade</td>
</tr>
<tr>
<td>Anne Stevens</td>
</tr>
<tr>
<td>Sir John M. Vereker</td>
</tr>
</tbody>
</table>

Note: Stephen Catlin and Suzanne Labarge did not stand for re-election and ceased to be directors following XL’s Annual General Meeting held on May 19, 2017. Clayton Rose resigned from the Board effective December 17, 2017 due to the time commitments required by his other professional obligations. Effective February 15, 2018, Billie Williamson was appointed to the Board as an independent non-executive director and named to the Audit Committee and the Risk and Finance Committees of the Board. Effective May 11, 2018, Ms. Williamson was also named to the Operations and Technology Committee of the Board.

Board Committees

The Board has established the Audit Committee, the Management Development and Compensation Committee (the “MDCC”), the Nominating, Governance and External Affairs Committee (the “NGEAC”), and the Corporate Social Responsibility (“CSR”) Sub-Committee of the NGEAC, the Operations and Technology Committee (the “OTC”) and the Risk and Finance Committee (the “RFC”). Each of the foregoing committees is comprised of independent non-executive directors.

Audit Committee

Members at December 31, 2017

<table>
<thead>
<tr>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joseph Mauriello (Chair)</td>
</tr>
<tr>
<td>Dale Comey</td>
</tr>
<tr>
<td>Claus-Michael Dill</td>
</tr>
<tr>
<td>Edward J. Kelly, III</td>
</tr>
<tr>
<td>James Nevels</td>
</tr>
<tr>
<td>Anne Stevens</td>
</tr>
</tbody>
</table>

Key Responsibilities

- Assist with the Board’s oversight of the quality and integrity of our financial statements, including our system of internal controls, the independent auditor’s qualifications, independence and performance, and compliance with legal and regulatory requirements
- Reviews with management, our independent auditor and our external actuary our reserves, including our reserving methodology and process
- Is directly responsible for the appointment, compensation, retention and oversight of our independent auditor
- Pre-approves all audit, audit-related, tax and other services to be provided by our independent auditor
- Appoints and oversees the work of our Chief Audit Executive and assesses the effectiveness of the internal audit department
## Management Development and Compensation Committee

<table>
<thead>
<tr>
<th>Members at December 31, 2017</th>
<th>Key Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ramani Ayer (Chair)</td>
<td>• Reviews and approves the goals, objectives, performance and compensation of our CEO, and recommends his compensation to the independent Directors for review and ratification</td>
</tr>
<tr>
<td>Robert Glauber</td>
<td>• Approves the compensation of other executive officers</td>
</tr>
<tr>
<td>Eugene McQuade</td>
<td>• Oversees succession planning for the CEO and other executive positions</td>
</tr>
<tr>
<td>Sir John Vereker</td>
<td>• Approves our overall compensation structure, including compensation programs and policies, and receives reports on the appropriateness of significant employee benefit plans</td>
</tr>
</tbody>
</table>

## Nominating, Governance and External Affairs Committee

<table>
<thead>
<tr>
<th>Members at December 31, 2017</th>
<th>Key Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claus-Michael Dill (Chair)</td>
<td>• Recommends individuals to our Board for election or appointment as members of our Board or its committees</td>
</tr>
<tr>
<td>Ramani Ayer</td>
<td>• Oversees the assessment of the performance of our Board and its committees</td>
</tr>
<tr>
<td>Robert Glauber</td>
<td>• Reviews and approves the form and amount of Director compensation</td>
</tr>
<tr>
<td>Edward Kelly, III</td>
<td>• Oversees and makes recommendations to our Board on structural, governance and procedural matters, including our Corporate Governance Guidelines, Director independence and the structure and charters of our Board committees</td>
</tr>
<tr>
<td>James Nevels</td>
<td></td>
</tr>
</tbody>
</table>

During 2017, the NGEAC formed a CSR Sub-Committee responsible for oversight of all aspects of the Company’s corporate social responsibility, charitable giving and other significant sustainability, social and similar public policy issues. Membership includes Sir John Vereker (Chair), Ramani Ayer, Edward Kelly III and Eugene McQuade.

## Operations and Technology Committee

<table>
<thead>
<tr>
<th>Members at December 31, 2017</th>
<th>Key Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anne Stevens (Chair)</td>
<td>• Oversees operations and technology strategy in support of the business</td>
</tr>
<tr>
<td>Dale Comey</td>
<td>• Reviews the Company’s technology infrastructure and monitors advances in technology</td>
</tr>
<tr>
<td>Joseph Mauriello</td>
<td>• Reviews operations and technology risk exposures and risk management</td>
</tr>
</tbody>
</table>

## Risk and Finance Committee

<table>
<thead>
<tr>
<th>Members at December 31, 2017</th>
<th>Key Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Robert Glauber (Chair)</td>
<td>• Oversees financial matters, including our capital structure, debt and equity issuances, dividend policy, significant acquisitions and divestitures, significant strategic investments, overall investment policy and performance and quarterly and annual financial results</td>
</tr>
<tr>
<td>Ramani Ayer</td>
<td>• Oversees enterprise risk management matters, including reviewing our methodology for establishing our risk capacity, reviewing and approving policies for establishment of our enterprise risk limit framework, and adherence to such limits, review of our overall risk profile and monitoring key risks across the organization as a whole</td>
</tr>
<tr>
<td>Dale Comey</td>
<td></td>
</tr>
<tr>
<td>Claus-Michael Dill</td>
<td></td>
</tr>
<tr>
<td>Edward Kelly, III</td>
<td></td>
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<tr>
<td>Joseph Mauriello</td>
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<tr>
<td>Eugene McQuade</td>
<td></td>
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<tr>
<td>James Nevels</td>
<td></td>
</tr>
<tr>
<td>Anne Stevens</td>
<td></td>
</tr>
<tr>
<td>Sir John Vereker</td>
<td></td>
</tr>
</tbody>
</table>
Senior Executives

<table>
<thead>
<tr>
<th>At December 31, 2017</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michael S. McGavick</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>Charles Cooper</td>
<td>Executive Vice President and Chief Executive, Reinsurance Business Group</td>
</tr>
<tr>
<td>Susan L. Cross</td>
<td>Executive Vice President and Global Chief Actuary</td>
</tr>
<tr>
<td>Kirstin Gould</td>
<td>Executive Vice President and General Counsel and Secretary</td>
</tr>
<tr>
<td>Gregory S. Hendrick</td>
<td>Executive Vice President and President, Property &amp; Casualty</td>
</tr>
<tr>
<td>Myron Hendry</td>
<td>Executive Vice President, Chief Platform Officer</td>
</tr>
<tr>
<td>Paul Jardine</td>
<td>Executive Vice President and Chief Experience Officer</td>
</tr>
<tr>
<td>Andre Keller</td>
<td>Executive Vice President and Chief Investment Officer</td>
</tr>
<tr>
<td>Kelly Lyles</td>
<td>Executive Vice President, Chief Executive Client &amp; Country Management</td>
</tr>
<tr>
<td>Steve Robb</td>
<td>Executive Vice President and Chief Financial Officer</td>
</tr>
<tr>
<td>Eileen Whelley</td>
<td>Executive Vice president and Chief Human Resources Officer</td>
</tr>
</tbody>
</table>

Notes:

1. Effective December 31, 2017, Jacob Rosengarten retired from the position of Executive Vice President and Chief Enterprise Risk Officer

2. Effective February 28, 2018, Gregory Hendrick became the President and Chief Operating Officer of the Company.

3. Effective January 1, 2018, Fielding Norton III became Executive Vice President and Chief Enterprise Risk Officer.

B.1.2. Remuneration policy

Executive Compensation

The Company’s remuneration program is designed to ensure strong alignment between executive pay and Company and individual performance by including both short-term and long-term incentives that motivate executives to achieve our near-term goals and longer-term strategic objectives. The design of these programs is guided by the following principles:

- Ensure alignment with shareholder interests and reward executives for enhancing long-term shareholder value
- Consider multiple factors in setting target levels of compensation, including an executive's role and responsibilities, performance, experience, expertise and competitor compensation information
- Allocate total compensation among annual base salary, annual cash incentive and long-term incentive awards so that it is heavily weighted towards performance-based pay
- Enable the attraction and retention of high caliber executive talent who will develop and successfully implement our business strategy
- Include qualitative components and strong governance practices that mitigate risk and drive appropriate behaviors
The balance of fixed and variable compensation is consistent with competitive market practice in the insurance industry, while permitting the Company to operate fully flexible variable compensation policies. Variable pay for colleagues in independent control functions is not aligned with the performance of the businesses they oversee, and is designed to avoid conflicts of interest while appropriately balancing risk and reward. Remuneration for Company executives is comprised generally of three components:

- **Fixed Remuneration** - We consider multiple factors - including an individual’s role and responsibilities, performance, experience, expertise and peer market compensation information in setting target levels of base compensation.

- **Variable Annual Incentive** - Annual incentive awards motivate executives to achieve specified performance goals that are established and approved by the MDCC (or the Board in the case of the CEO) at the beginning of each year and that are aligned with the Company’s strategy and operating plan as approved by the Board. Enterprise and business segment performance goals are measured quantitatively and represent 70% of the individual’s target annual incentive opportunity. Individual qualitative goals represent 30% of the individual's target annual incentive opportunity. In reviewing executives’ performance against the qualitative and quantitative goals, the MDCC applies informed discretion, which includes review of a number of relative and absolute performance criteria, to determine if an upward or downward adjustment to an individual executive’s payout is warranted. This measurable, but non-formulaic assessment, helps to ensure individual executive payouts reflect relative performance and performance against other measures that may not be reflected through the quantitative and qualitative performance goals.

- **Long-Term Incentive Plan** - Long-term incentive awards are reserved for those who perform at a high level, recognize the recipient’s anticipated future contributions, and take relative and absolute performance, individual potential and unique skills into consideration. Grants of long-term incentives are based on sustained individual performance and criticality of skills. For our most senior leaders, shares awarded under our long-term incentive program are subject to mandatory holding periods and minimum ownership requirements. Individual awards under the Company’s long-term incentive plans are also capped.

The Company believes that it is important to review its incentive programs to ensure that the programs are operating as intended, have appropriate oversight, and motivate desired colleague behaviors. At the request of the MDCC, management annually evaluates our significant incentive compensation programs to determine whether they are designed and operate in a prudent manner. Management’s evaluation process is a rigorous subset of the Company’s overall enterprise risk management process overseen by our Board. This includes reviews by the Operational Risk and Anti-Fraud Sub-Committees of the management Enterprise Risk Committee. In addition, significant compensation programs remain subject to our internal control over financial reporting and our underwriting, claims and actuarial guidelines and processes. The accuracy and timing of incentive arrangement payouts also are monitored and reviewed by internal and external audit functions.

Management's annual evaluation considers whether the programs reviewed:

- Encompass a formal, consistent design and approval process from administrative, oversight, structural and design perspectives

- Provide for accurate and timely payout and ongoing monitoring and oversight

- To the extent a program utilizes them, that performance metrics are consistent with our risk profile and motivate appropriate risk-taking behaviors

For 2017, the MDCC reviewed management’s evaluation and determined that the inherent risks of the programs are appropriately mitigated in several ways:

- Programs generally have multiple performance measures and/or vesting provisions that require executives to take into account both short and long-term interests

- Share ownership guidelines require executives to hold equity grants for specified periods of time

- Both equity and cash-based incentive awards are subject to clawback
• MDCC discretion in determining the amounts of annual or other incentive payments or awards mitigates the risk that a formulaic calculation based on pre-established performance metrics could result in payouts that are not aligned with the creation of shareholder value and our overall financial performance.
Non-Executive Director Compensation

Our non-executive Director compensation program is designed to attract and compensate highly qualified Directors for the time and effort necessary to serve as a Director of a global (re)insurer operating in a regulated industry. The form and amount of non-executive Director compensation are reviewed and determined annually by the NGEAC. The NGEAC, with the assistance of the Board’s independent compensation consultant, considers whether non-executive Director compensation is reasonable and consistent with market levels. Non-executive Director compensation includes the following components:

- Cash annual retainer fee
- Annual equity grant with a grant date fair value of approximately USD $150,000
- Chairperson Fees (if applicable), for Chairs of the Audit Committee, MDCC, NGEAC, OTC, RFC committees and the CSR sub-committee of the NGEAC
- Audit Committee member (non-Chair) fee (if applicable)
- Non-Executive Directors are also reimbursed for travel, accommodation and other reasonable out-of-pocket expenses incurred in connection with their attendance at Board and committee meetings and other Board-related duties. We transport one or more non-executive Directors to and from Board meetings on aircraft in which we have fractional ownership.

B.1.3. Pension or early retirement schemes for members, board and senior employees

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

B.1.4. Shareholder controllers, persons who exercise significant influence, the board or senior executive material transactions

Other than dividends paid to the Company’s shareholders during the year ended December 31, 2017 and the transaction disclosed in Section F, "Subsequent Events", XL is not aware of any other material transactions required to be disclosed for purposes of this FCR.

B.2. Fitness and Propriety Requirements

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

Board of Directors: Fit and Proper Assessment

The process for assessing the skills and characteristics for new board candidates, and for the Board as a whole on an annual basis is overseen by the NGEAC and includes consideration of the following criteria:

- Personal qualities and characteristics, including business judgement, integrity, high standards of ethical conduct and distinction in the director's chosen fields of endeavour;
- An individual’s qualification as independent under the listing standards of the New York Stock Exchange and the Company's Director Independence Standards;
- Current knowledge of and experience in the areas of insurance, reinsurance, financial services or other aspects of XL Group’s business, operations or activities;
- Diversity of viewpoints, skills, experience, backgrounds, orientations and other demographics in the context of the needs of the Board; and
- Such other attributes and external factors deemed appropriate.
Executive: Fit and Proper Assessment

The MDCC oversees the evaluation of potential candidates for Chief Executive Officer and, as appropriate, other executive management positions.

The fit and proper assessment of a person shall include:

- an assessment of that person’s professional and formal qualifications, knowledge and relevant experience within the insurance sector, other financial sectors or other businesses and shall take into account the respective duties allocated to that person and, where relevant, the insurance, financial, accounting, actuarial and management skills of the person;

- an assessment of that person's honesty and financial soundness based on evidence regarding their character, personal behaviour and business conduct including any criminal, financial and supervisory aspects relevant for the purposes of the assessment.

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

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

Board of Directors (as at December 31, 2017):

Ramani Ayer (Director since February 2011)

Career Highlights

Chairman of the board of directors and Chief Executive Officer, The Hartford Financial Services Group Inc. (“The Hartford”), a (re)insurance company (February 1997 - October 2009)

Key Qualifications

During his 36-year career with The Hartford, Mr. Ayer held progressively senior roles. Mr. Ayer’s long tenure as the Chairman of the board and CEO of The Hartford, during which time he built the company into a recognized leader in P&C insurance, provides him with a wealth of experience with respect to the varied and complex issues that confront large (re)insurers, such as the Company, and makes him well suited to serve as the Chairman of the MDCC. In particular, Mr. Ayer’s vast knowledge and experience in the P&C space complement the expertise of our other Directors and benefits us as we continue to build on our solid foundation, global platform and depth of underwriting talent.

Other Professional and Leadership Experience

- Current member, and former Chairman, of the Board of the Hartford Healthcare Corporation
- Vice Chairman of the Connecticut Council for Education Reform
- Director, The Cape Cod Foundation
- Former Chairman of the American Insurance Association, the Property & Casualty CEO Roundtable and the Insurance Services Office
- Former Chairman of the Hartford Hospital
- Former member of the Board of Maharishi University of Management
Dale R. Comey (Director since November 2001)

Career Highlights

Executive Vice President, ITT Corporation (1990 - 1996), responsible for directing operations of several ITT business units, including ITT Hartford and ITT Financial Corporation

President of ITT Hartford's Property & Casualty Insurance Business (1988 - 1990)

Key Qualifications

Mr. Comey brings an actuarial background and extensive operational and business leadership skills to the Board. Through his experience serving in various senior leadership positions with ITT Corporation, he has first-hand knowledge of the varied and complex financial, operational and governance issues that confront large (re)insurers, such as the Company. This experience makes him well-suited to serve as a Director of the Company. In addition, Mr. Comey’s experience gained from serving as a director of a non-profit institution adds to the depth and breadth of his knowledge of operations, strategy and best practices in corporate governance.

Other Professional and Leadership Experience

- Former Director, St. Francis Hospital and Medical Center, Hartford Connecticut
- Former Alternate Lead Director, XL Capital Ltd Board of Directors

Claus-Michael Dill (Director since August 2015)

Career Highlights

Chief Executive Officer, Damp Holding AG, a hospital group (January 2006 - December 2008)

Chief Executive Officer, AXA Konzern AG, a (re)insurer (April 1999 to September 2005), responsible for operations in Germany and Central Europe, and member of the AXA Group Executive Committee

Chief Financial Officer and Group Management Board Member, Gerling Konzern AG, a (re)insurer (February 1995 to April 1999), responsible for asset management/financials and strategic restructuring

Key Qualifications

Mr. Dill’s career in the insurance and reinsurance industries, spanning more than 30 years, includes experience serving as a chief executive officer, chief financial officer, and executive and non-executive director, among other management positions. He also possesses broad international experience, having worked across Europe, the United States, and Australasia. This combination of industry experience and geographic breadth makes Mr. Dill well-qualified to serve as a Director of our Board.

Other Professional and Leadership Experience

- Prior chief executive officer and chief financial officer positions at Vereinte Insurance AG and other Swiss Re Group companies
- Supervisory Board Member, MLP AG
- Vice Chairman of the Supervisory Boards of HUK Coburg VaaG, HUK Coburg Holding AG and HUK Coburg Insurance AG
- Former Supervisory Board Member and Chairman, General Reinsurance AG
Robert R. Glauber (Director since September 2006)

Career Highlights

Chief Executive Officer, National Association of Securities Dealers (now FINRA), the private-sector regulator of the US securities markets (2000 to 2006), and Chairman (2001 to 2006)

Under Secretary of the Treasury for Finance (1989 to 1992)


Key Qualifications

Mr. Glauber’s strong management background in both the public and private sectors, and his expertise in financial services regulation, public policy and corporate governance provide him the consensus-building and leadership skills necessary to serve as a Director and the Chair of our Risk and Finance Committee. In addition, Mr. Glauber’s variety of experience serving as a current or former director of several large financial companies adds to the depth and range of his contribution to the Board.

Other Professional and Leadership Experience

- Executive Director of the Task Force ("Brady Commission") appointed by President Reagan to report on the October 1987 stock market crash
- Former independent Chairman of the Board, XL Group plc
- Chairman of the Board of Directors, Northeast Bancorp
- Director, Pioneer Global Asset Management S.p.A. (Milan)
- Senior Advisor, Peter J. Solomon Co. (November 2006 to Present)
- Former Director of Moody's Corp, Federal Home Loan Mortgage Corp. ("Freddie Mac"), a number of Dreyfus mutual funds, the Korean Financial Service's International Advisory Board and the Investment Company Institute
- Former Vice Chairman of the Trustees, International Accounting Standards Board
- Former President of the Metropolitan Opera Club, Overseer of the Boston Symphony Orchestra and Executive Committee member of the Metropolitan Opera Guild

Edward J. Kelly, III (Director since August 2014)

Career Highlights


Managing Director, The Carlyle Group, an asset management firm (June 2007 - January 2008)

Chairman, CEO and President (March 2003 - March 2007) and President and CEO (March 2001 - March 2003), Mercantile Bankshares Corporation, a financial services corporation, and Vice Chairman, PNC Financial Services Group, following its acquisition of Mercantile (March 2007 - June 2007)

Key Qualifications

Mr. Kelly brings deep knowledge of the financial services industry and a unique perspective to the Company, particularly in the areas of capital management and strategic execution, as a result of his more than 25 years of operating, regulatory and investment experience in the financial services industry. This unique perspective, combined with his knowledge gained from serving as a current or past director of public corporations with global operations, provides him with a wealth of experience to draw from in his oversight role as a Director of the Company.

Other Professional and Leadership Experience

- Partner, Davis Polk & Wardwell LLP, a law firm
- Director, CSX Corp (July 2002 - Present), currently serving as non-executive Chairman
- Director, MetLife, Inc. (February 2015 - Present)
- Member, Board of Directors, Focused Ultrasound Foundation, a non-profit entity (June 2015 - Present)
- Former Director of The Hartford, Axis Capital Holdings Ltd. and Paris RE Holdings, among others

Joseph Mauriello (Director since January 2006)

Career Highlights

Numerous leadership positions during his 40 year career at accounting firm KPMG, including Deputy Chairman and Chief Operating Officer and a Director of KPMG LLP (United States) and KPMG Americas Region (2004 - 2005) and Vice Chairman of Financial Services (2002 - 2004)

Key Qualifications

Mr. Mauriello’s significant experience in the independent public accounting and financial services industries, including a 40-year tenure in senior positions with the leading international accounting firm of KPMG, makes him well-qualified to serve in his current position as Chair of the Audit Committee. He has in-depth familiarity with financial accounting practices and reporting responsibilities, including those unique to property, casualty and specialty insurance and reinsurance companies. In addition, the Board benefits from Mr. Mauriello’s breadth of experience serving, or previously serving, on the boards of directors of other entities that have, or control other entities that have, publicly traded securities.

Other Professional and Leadership Experience

- Trustee, Fidelity Funds (July 2007 - Present)
- Member of the Board of Overseers, Peter J. Tobin School of Business at St. John's University (January 2015 - Present), and Member Emeritus of the Board of Overseers, School of Risk Management, Insurance and Actuarial Science of the Peter J. Tobin College of Business at St. John's University
- Trustee, St. Barnabas Medical Center (2003 - Present) and RWJ Barnabas Health Care System (2008 - Present)
- Director, Lupus Research Alliance (2006 - Present)
- Former Director, Arcadia Resources, Inc.
- Certified Public Accountant (Retired) in New York and Member of the American Institute of Certified Public Accountants
Michael S. McGavick (Director since April 2008)

Career Highlights

Chief Executive Officer, XL Group Ltd (May 2008 - Present)

President and Chief Executive Officer (January 2001 - December 2005) and Chairman (January 2002 - December 2005), of Safeco Corporation, a (re)insurer

Various senior executive positions with insurer CNA Financial Corporation (1995 - 2001), a (re)insurer, including President and Chief Operating Officer of its largest commercial insurance operating unit

Key Qualifications

Upon joining the Company in 2008, Mr. McGavick pioneered and led a successful turnaround of XL and several strategic actions. These actions initially included the successful implementation of our strategy to simplify our organizational structure, re-focus on core property, casualty and specialty insurance and reinsurance businesses, enhance our enterprise risk management capabilities and attract and retain industry talent. Further strategic advancements were made with the acquisition of Catlin Group Limited, the reinsurance of the vast majority of our run-off life portfolio, and several smaller acquisitions to add teams and business lines to further grow the Company.

Mr. McGavick provides innovative leadership and knowledge of all aspects of our business, and has a proven track record in the insurance industry, especially relating to turnaround management. The May 2015 acquisition of Catlin, which has strengthened the position and relevance of our core P&C business, and work to integrate Catlin's businesses with the Company's existing businesses exemplifies Mr. McGavick’s leadership in action. In addition, Mr. McGavick’s previous political and public affairs experience and active involvement in various industry associations enhances his contribution to the Company and the Board.

Other Professional and Leadership Experience

- Member of the Geneva Association (2011 - Present), currently serving as Chairman
- Member, and former Chairman, of the American Insurance Association (2008 - Present)
- Member, the Global Reinsurance Forum (2009 - Present)
- Director, Save the Children Action Network, a social welfare organization (2015 - Present)
- Former Director, Blue Marble Microinsurance, as industry consortium focused on microinsurance (2015 - 2018)
- Former Director, Insurance Information Institute (2008 - 2015)
- Former Chairman of the Association of Bermuda Insurers and Reinsurers
- Former Director of the American Insurance Association's Superfund Improvement Project in Washington, D.C., serving as the Association's lead strategist in working to transform U.S. Superfund environmental laws

Eugene McQuade (Director since July 2004)

Career Highlights

Vice Chairman, Citigroup Inc. (April 2014 - May 2015), a financial services company

Chief Executive Officer, Citibank, N.A., a commercial bank (August 2009 - April 2014)
Various senior positions in the financial services industry, including Vice Chairman and President of Merrill Lynch Banks (US), President and Chief Operating Officer of Freddie Mac, President and Chief Operating Officer of FleetBoston Financial Corporation and, subsequent to Bank of America Corporation’s (“Bank of America”) acquisition of FleetBoston, President of Bank of America

**Key Qualifications**

Mr. McQuade has extensive experience and financial expertise through his service in management positions such as CEO, president, vice chairman, chief financial officer and chief operating officer of several global, publicly traded financial institutions. This expertise makes him well-qualified to serve as the independent Chairman of our Board. In addition, the Board derives valuable insight and benefit from Mr. McQuade’s judgment and experience as a current or former member of the board of directors of several financial institutions.

**Other Professional and Leadership Experience**

- Director, Citigroup, Inc. (July 2015 - Present)
- Director, Citibank, N.A. (August 2009 - Present)
- Vice Chairman, Promontory Financial Group Advisory Board (July 2015 - Present)
- Trustee (2010 - Present) and Board of Governors (2016 - Present), Boys and Girls Club of America
- Former Director of Bank of America, FleetBoston Financial Corporation and Freddie Mac

**James Nevels** (Director since October 2017)

**Career Highlights**

Chairman and Founder, The Swarthmore Group, an investment advisory firm (1991 - Present)

Former Director (January 2010-December 2015), Deputy Chairman (January 2012-January 2014) and Chairman (January 2014-December 2015), Federal Reserve Bank of Philadelphia

Former member (2004-2007) and Chairman (2005-2007) of the advisory committee to the Pension Benefit Guaranty Corporation

**Key Qualifications**

Mr. Nevels’ experience as an investment advisor provides him with deep expertise in the securities and investment industry. The Board also gains valuable insight from Mr. Nevels' broad financial and legal experience, as well as his corporate governance expertise gained from his experience as the current or former lead independent director or chairman of large public companies. The skills derived from this experience make him well-qualified to serve as a Director.

**Other Professional and Leadership Experience**

- Director, WestRock Company (2014-Present), currently serving as Lead Independent Director
- Director, Alcoa Corporation (2016-Present)
- Director, First Data Corp (2014-Present)
- Former Chairman and Lead Independent Director of The Hershey Company and former Director of the Tasty Baking Company
- Former Chairman of the Philadelphia School Reform Commission, overseeing the turnaround of the Philadelphia School System
**Anne Stevens** (Director since April 2014)

**Career Highlights**

Chief Executive Officer of GKN plc (January 2018 - Present), a global engineering company

Chief Executive Officer and Principal, SA IT Services, an information technology outsourcing company (June 2011 - November 2013) and Chairman (June 2011 - December 2014)

Chairman, President and Chief Executive Officer, Carpenter Technology Corporation (November 2006 - November 2009)

Various senior management positions during 16 years with automaker Ford Motor Company, including Executive Vice President and Chief Operating Officer of The Americas (November 2005 - October 2006), Group Vice President, Canada, Mexico and South America (October 2003 - October 2005), Vice President, North America Vehicle Operations (August 2001 - October 2003) and Vice President, North America Assembly Operations (April 2001 - August 2001)

**Key Qualifications**

Ms. Stevens obtained broad experience at Ford Motor Company in managing the challenges associated with global organizations, particularly in the areas of operations management, talent management and governance. The skills derived from this experience make her well-qualified to serve as a Director. The Board also derives benefit from her current position as director of three other publicly traded companies with global operations, and her past experience serving as the Chair of Lockheed Martin’s compensation committee from 2011 to 2015.

**Other Professional and Leadership Experience**

- Director, Lockheed Martin Corporation (2002 - 2017)
- Director, Anglo American plc (2012 - Present)
- Director, GKN plc (2016 - Present)
- Trustee, Drexel University
- Member of the National Academy of Engineering

**Sir John M. Vereker** (Director since November 2007)

**Career Highlights**

Governor and Commander-in-Chief of Bermuda (April 2002 - October 2007)

United Kingdom's ("U.K.") Permanent Secretary of the Department for International Development and of its predecessor, the Overseas Development Administration (1994 - 2002)

Various senior public sector roles, including serving as Private Secretary to three U.K. Ministers of Overseas Development, Deputy Secretary for the U.K. Department of Education and Science, and positions with the World Bank and the Policy Unit of the British Prime Minister's Office

**Key Qualifications**

As a result of his extensive career in the public sector, Sir John Vereker provides valuable insights to the Board in the areas of government relations and external affairs. In particular, Sir John Vereker’s significant public sector experience and previous leadership positions in Bermuda and the U.K. bring depth to the Board’s oversight of public policy matters on a global basis and makes him well-qualified to serve as a Director.
Other Professional and Leadership Experience

- Governor, the Ditchley Foundation, a charitable organization focused on international relations research
- Former Director, MWH Global, a wet infrastructure engineering company
- Former board member of the British Council, the Institute of Development Studies and the Institute of Manpower Studies and Voluntary Services Overseas
- Former Advisory Council member of the Center for Global Ethics and for the British Consultancy and Construction Bureau
- Former Advisor to the U.N. Secretary-General's Millennium Development Project
- Former Member of the Volcker panel, which investigated the World Bank's institutional integrity

Senior Executives (as at December 31, 2017)

For Michael S. McGavick, please see his biography included above under Board of Directors.

Charles Cooper was appointed Executive Vice President and Chief Executive, Reinsurance effective January 1, 2017. Previously, from October 2010 to January 2017, Mr. Cooper served as the Company's Chief Executive, Bermuda Reinsurance, responsible for development and execution of the Company's Bermuda reinsurance operations. Mr. Cooper first joined the Company in March 2000 as an Assistant Vice President and Corporate Planning Analyst, and during his 17 year career with the Company has also served as a Vice President and Casualty Treaty Underwriter, and as a Senior Vice President and Property Treaty Underwriter. Prior to joining the Company, Mr. Cooper was an international casualty underwriter with Zurich North American and AIU North America.

Susan L. Cross has served as Executive Vice President and Global Chief Actuary since August 2008. Ms. Cross has served as Global Chief Actuary since 2006 and previously was Chief Actuary of the Company's reinsurance operations from 2004 to 2006 and Chief Actuary of XL Re Bermuda from 2002 to 2004. She also held various actuarial positions in the insurance and reinsurance operations of the Company from 1999 to 2002. Prior to joining the Company, Ms. Cross was Principal and Consulting Actuary at Tillinghast Towers Perrin.

Kirstin Gould was appointed Executive Vice President, General Counsel in September 2007, which position includes her prior responsibilities as General Counsel, Corporate Affairs and Corporate Secretary. From 2008 to May 2015, Ms. Gould also led the Communications and Marketing department. Ms. Gould was previously Executive Vice President, General Counsel, Corporate Affairs from July 2006 to September 2007 and also served as Chief Corporate Legal Officer from November 2004 to July 2006, and Associate General Counsel from July 2001 to November 2004. Prior to joining the Company in 2000, Ms. Gould was associated with the law firms of Clifford Chance and Dewey Ballantine in London and New York.

Gregory S. Hendrick was appointed Executive Vice President and President of P&C Operations on January 1, 2017. Mr. Hendrick served as Executive Vice President and Chief Executive of Reinsurance Operations from May 2015 to January 2017. From January 2012 to May 2015, Mr. Hendrick served as Executive Vice President and Chief Executive of Insurance Operations. From October 2010 to January 2012, Mr. Hendrick served as Executive Vice President, Strategic Growth. From 2004 to October 2010, Mr. Hendrick served as President and Chief Underwriting Officer of XL Re Ltd. Previously, he served as head of U.S. Property Treaty underwriting at XL Re Ltd and Vice President responsible for U.S. Property Underwriting for XL Mid Ocean Reinsurance Ltd. Prior to joining XL, Mr. Hendrick was Assistant Vice President of Treaty Underwriting for the Winterthur Reinsurance Corporation of America.

W. Myron Hendry joined the Company’s Leadership Team upon his appointment as Executive Vice President, Chief Platform Officer in December 2009. Prior to joining the Company, from 2006 to December 2009, Mr. Hendry served as Business Operations Executive of Bank of America’s Insurance Group, joining there from a merger with Countrywide Insurance Services Group. Prior to the merger, Mr. Hendry served as Managing Director and Chief Operating Officer for Countrywide and prior to this, from 2004 to 2006, Mr. Hendry served as Senior
Vice President, Property and Casualty Services at Safeco. From 1971 to 2004, Mr. Hendry held various leadership roles with CNA Insurance, with his last assignment being the Senior Vice President of Worldwide Operations.

Paul Jardine was appointed Executive Vice President and Chief Experience Officer in May 2015. Previously, from 2004 until May 2015, Mr. Jardine was Catlin Group Limited’s (“Catlin”) Chief Operating Officer. Mr. Jardine joined Catlin in 2001 with responsibility for the development of new financial products, and was appointed as Chief Executive of the Catlin Syndicate in 2003. Prior to joining Catlin, Mr. Jardine was Chief Actuary and Commutations Director of Equitas Holdings Limited. Prior to that, he was a partner at Coopers & Lybrand, where he was involved almost exclusively with issues dealing with Lloyd’s and the London insurance market.

Andre Keller was appointed Executive Vice President and Chief Investment Officer effective January 1, 2017. Previously, from May 2015 to December 2016, Mr. Keller served as the Company's Head of Global Asset Positioning, responsible for investment strategy, portfolio steering and portfolio implementation. Prior to the Company's acquisition of Catlin, from March 2014 to May 2015, Mr. Keller served as the Deputy Chief Investment Officer of Catlin. Prior to joining Catlin, from June 2009 to January 2014, Mr. Keller served as the Head of Asset Management and Deputy Chief Investment Officer for Nationale Suisse, Switzerland, and from June 1998 to April 2009, held progressively senior management positions with Swiss Reinsurance Company Ltd, Switzerland.

Kelly Lyles was appointed Chief Executive, Client and Country Management effective January 1, 2017. Previously, Ms. Lyles served as the Company's Chief Regional Officer, Insurance, and Deputy Chair of the Insurance Leadership Team from May 2015 to January 2017, as Chief Executive of Insurance Global Professional operations from September 2014 until May 2015. Prior to joining the Company in 2014, Ms. Lyles served in progressively senior leadership roles during her more than 15 years with AIG, including as Head of Specialty Lines for Europe, Middle East and Africa from January to September 2014, and as AIG’s Country Manager in France from 2010 to January 2014.

Stephen Robb was appointed Executive Vice President, Chief Financial Officer in May 2017. He previously served as Senior Vice President and Group Controller of XL Group Ltd and as a Managing Director on the Company’s Leadership Council. Stephen has held various progressively senior leadership positions since joining XL in 2004. These include responsibility for the direction of XL’s corporate finance and policy function; global treasury functions; budgeting and planning; global regulation; financial close, reporting and control and other key finance functions. Before joining XL, he served as Senior Manager, Insurance Industry Group Leader in the insurance practice of PricewaterhouseCoopers.

Eileen Whelley was appointed to the Company’s Leadership Team in June 2012, serving as Executive Vice President, Chief Human Resources Officer, where she is responsible for global talent acquisition, leadership and professional development, succession planning, compensation and benefit program design and administration, employee relations, organizational effectiveness, performance management, HR information systems and payroll. Prior to joining the Company, from 2006 to 2012, Ms. Whelley served as Executive Vice President, Human Resources, for The Hartford Financial Services Group, Inc. Prior to that, Ms. Whelley spent 17 years at General Electric Company, where she held a number of human resources leadership roles, including Executive Vice President of Human Resources for NBC Universal and Vice President of Human Resources Excellence for GE Capital. She also served in various HR roles at Citicorp and Standard Oil of Ohio.

**B.3. Risk Management and Solvency Self-Assessment**

The responses in this section should be read in conjunction with the Company's 2017 Form 10-K.

Please note that for the purposes of all risk management sections in this report, the terms ORSA (Own Risk and Solvency Assessment) and CISSA (Commercial Insurance Solvency Self-Assessment) can be used interchangeably.

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

The following is an excerpt from XL's 2017 Form 10-K, describing our Risk Management Framework. XL Group faces strategic and operational risks related to, among others: underwriting activities, financial reporting, changing macroeconomic conditions, investment risks, reserving estimates, changes in laws or regulations, information systems, business interruption and fraud. Our global P&C business, and investment portfolios each have their own set of risks (see Item 1A, “Risk Factors,” in XL's 2017 Form 10-K for a discussion of such risks). From time to
time, these risks may exhibit greater levels of correlation than might be expected over the longer term due to the presence of, to a greater or lesser degree, some common internal or external risk drivers embedded in our businesses that may manifest themselves simultaneously. As such an enterprise view of risk is required to identify and manage the consequences of these common risks and risk drivers on our profitability, capital strength and liquidity.

Our Enterprise Risk Management ("ERM") initiatives are led by the Chief Enterprise Risk Officer ("CERO") who reports to our Chief Financial Officer. The CERO also acts as a liaison between our Enterprise Risk Committee ("ERC") (as discussed below), and the XL Board (or its committees), with respect to risk matters. All of our employees are expected to assist in the appropriate and timely identification and management of risks and to enhance the quality and effectiveness of ERM.

The Group’s Risk Management Framework ("RMF") is designed to allow us to identify and understand material risk concentrations, including concentrations that have unattractive risk/reward dynamics so that prompt, appropriate, corrective or mitigating actions can be taken. To achieve this, we have established risk management committees and processes to serve as points of managerial dialogue and convergence across our businesses and functional areas, to create risk aggregation methodologies and to develop specific risk appetites to coordinate the identification, vetting and discussion of risk topics and metrics. As part of our ERM activities, we apply a suite of stress tests, tools, risk indicators, metrics and reporting processes that examine the consequences of low probability/high severity events (including those related to emerging risks) in order to take mitigating actions where required.

In 2017, S&P reviewed XL Group’s ERM program and assessed it as “Strong”.

XL Group’s RMF is comprised of the following ‘Key Components’ shown in the diagram below:

Goals of ERM and the RMF are to:

- **Goal #1**: Support business objectives and strategy: Optimisation of returns requires that risk “charges” be assessed in activities where XL operates and/or desires a strategic presence;
- **Goal #2**: Informed management: XL’s ERM processes and RMF is designed to allow management to identify and understand material risks, including concentrations that have unattractive risk versus reward dynamics so that prompt, appropriate, corrective actions can be taken. The RMF also helps management identify activities which contain risks for which expected returns derived from such risks are attractive and so should therefore be pursued;
- **Goal #3**: Support Internal Control Framework: XL’s ERM processes and its RMF contribute to XL’s overall internal control framework by helping to manage the inherent complexity within the business;
- **Goal #4**: Improved ERM rating and credit rating (including regulators’ and Rating Agency credit ratings);
• **Goal #5:** Regulatory compliance: XL is subject to regulation and supervision in a variety of jurisdictions that impose risk management expectations; and

• **Goal #6:** Subsidiary compliance: XL subsidiaries that need to demonstrate application of a risk framework should be able to comply with the RMF Standards in a proportionate manner.

XL’s ERM processes and its RMF comprise the following:

**Risk management strategy and appetites:**

Defines how the risk management strategy supports the business objectives, business strategy and business plans specifically detailing the vision, objectives, values and appetites, assignment of responsibilities, to guide the management of risk.

The Group Risk Appetite Framework (“RAF”) guides our strategies relating to, among other things, capital preservation, earnings volatility, capital at risk, operational loss, liquidity standards, claims paying rating and capital structure. The framework also addresses our tolerance to risks from material individual events (e.g. natural or man-made catastrophes such as terrorism), our investment portfolio and realistic disaster scenarios (“RDS”) that cross multiple lines of business (and risks related to some or all of the above that may occur concurrently).

The approved appetite and limits provide a framework under which decisions can be taken and we test the extent to which we can operate within that framework by stressing the business plan to the full limits to ensure that we would remain within the overall approved appetites.

The risk appetite framework for the 2018 business plan was approved at the December 2017 RFC meeting.

**Risk Governance Framework**

This sets out a clear and cost effective organisational structure for risk management, including clear roles and responsibilities.

The Group operates a ‘Three Lines of Defense’ governance structure, at a functional level as well as a management committee level. A high level overview of XL Group’s Risk Governance Operating Model is shown below:

![Risk Governance Framework Diagram](image)

See section B.4.1 for a description of FIC
We have also established subcommittees of the ERC, each focusing on particular aspects of ERM. These subcommittees include:

- **Asset Risk Committee:** This subcommittee assists the ERC in its responsibilities in relation to governance and oversight of asset-related risks across the Company, including the investment portfolio. Among its activities are (a) involvement in policy decisions on modeling and quantification of risk measurements; and (b) providing an interpretation and assessment of asset-related risks, with a particular focus on market-related risks. Further, the subcommittee is responsible for coordinating on a regular basis with the Credit Risk Committee on asset-related credit risks.

- **Country Risk Committee:** This subcommittee supports and assists the ERC’s identification, measurement, management, monitoring and reporting of country risk to our underwriting activities and functional areas.

- **Credit Risk Committee:** This subcommittee develops and implements the metrics and supporting framework for allocation of credit risk capacity across major business units and functions, including the amount and types of credit exposure.

- **Economic Capital Model Committee:** This subcommittee oversees the development of economic capital models that support ERM activities, and helps set priorities and manage resources related to such models. It reviews assumptions and related methodologies used within our economic capital models, including assessments of model validation, model control and model risk.

- **Liability Risk Committee:** This subcommittee supports and assists the ERC’s identification, measurement, management, monitoring and reporting of key underwriting liability and emerging risks.

- **Model Validation Committee:** This subcommittee supports ERC’s independent validation of the capital model, and ensuring that it is fit for purpose, by providing oversight over the independent validation of the capital model.

- **Operational Risk Committee:** This subcommittee supports the ERC’s identification, measurement, management and oversight of key operational risks through its oversight of key operational risk management processes and through its review of related operational risk indicators, trends and metrics.

In addition to the above, risk management committees within our segments and certain business functions help ensure that risk is managed in accordance with the risk limits, guidelines and tolerances that we have allocated to them.

The Group ERM function is independent of other operational functions within the Group and organised under a number of ‘centres of excellence’ (“COE”) that provide risk analysis and monitoring support to the Group as a whole. These COE’s are:

- **Natural Catastrophe COE:** responsible for independent oversight of natural catastrophes and natural catastrophe limits;

- **Man-Made Catastrophe COE:** responsible for independent oversight of man-made catastrophes and man-made catastrophe limits;

- **Credit Risk COE:** responsible for independent oversight of credit and country risk and the credit and country risk framework limits;

- **Market Risk COE:** responsible for independent oversight of market risk and the market risk limits.

- **Internal Model COE:** responsible for the Group and legal entity Internal Capital Models (“ICM”);

- **Information Security COE:** responsible for independent oversight of information security risk, including monitoring of cyber risk;

- **Risk Research COE:** responsible for risk research, partnering with external research centers and developing risk methodologies; and
• **Model Validation and Risk Governance (including Operational Risk) COE:** responsible for the independent oversight of operational risk, independent model validation and risk governance at a group and legal entity level.

The COEs are aligned with one of the risk committees detailed above. In addition, the Model Validation and Risk Governance COE is aligned with the legal entity risk management committees and Boards in order to provide ERM support within key legal entities and to promote alignment between Group and legal entity risk management processes.

**Risk Policies**

Risk policies exist that document the Company's approach to the management of each category of risk to which the Company is exposed. In addition, there are a number of internal risk management policies governing the use of the ICM (such as policies defining the governance and validation policy for the ICM) as well as specific policies addressing aspects of our processes that require more granular risk management requirements (such as Outsourcing). The risk policies are generally approved by Enterprise Risk Committee under delegation from Risk and Finance Committee or other Board committees and are reviewed annually.

**Risk definition and categorisation**

This provides a common taxonomy and language for risk to allow for categorisation of all risks in a way which facilitates links between the business, risk management processes and the ICM.

![Group Risk Categorization Framework](image)

**Risk cycle and processes**

These are the approaches taken to top down, bottom up and process led risk identification, quantification and management and control.

XL uses a number of ERM tools to support the risk management process including a corporate risk register (with risk owners assigned to each risk), a range of stress tests and its ICM that is widely used within the ORSA process. The output of the risk assessment processes is considered against actual experience.

A range of supplementary risk tools are used for day-to-day risk management decisions including for investment and credit risk assessments.

In addition, XL has an emerging risk process that is responsible for coordinating our activity regarding new and emerging risks.

**Risk-based decision making (“use test”)**

This defines the process by which XL uses its ICM to organise information about the possibility of one or more unwanted outcomes materialising to help decision makers make better informed management choices.

As part of its ORSA process, XL uses its ICM to:

- Provide quarterly monitoring of the Group Risk Appetites and economic capital adequacy;
- Provide information to management and the Board on the risk and capital implications of the budget for the upcoming planning year. This includes:
  - Risk appetite calculations and economic capital position;
  - Risk adjusted returns and ranking of underwriting units;
  - Towers of Risk and other information to illustrate the risk profile of the Group; and
  - Earnings volatility assessments - the probabilities of achieving a range of outcomes; and
• Economic VaR assessments.
• Define and calibrate a set of target loss ratios by underwriting unit that will in the long-term provide the required return on equity for the Group;
• Project natural catastrophe PMLs;
• Support the purchasing of reinsurance:
  ◦ Providing general management information for internal or external users;
  ◦ Analysis of individual contracts; and
  ◦ Analysis of reinsurance strategy.
• Price internal reinsurance contracts between XL Group entities; and
• Construct the Strategic Asset Allocation benchmark investment portfolio.

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

XL has developed processes for its ORSA and producing the ORSA Report, tailored to fit into the organisational structures in a proportionate manner with techniques to assess XL’s overall solvency needs and taking into consideration the nature, scale and complexity of the risks inherent to the business.

A clear timetable is set for key aspects of the risk management process that are deemed to be part of XL’s ORSA process and that will support the production of the ORSA Report. These processes include:

• Annual business planning / risk budget process
• Annual setting of risk appetites , limits and tolerances in line with the business planning / risk budget process, and periodic monitoring processes related to same
• Natural Catastrophe and Modelled Terror Risk exposure results production
• Periodic risk assessments and annual refresh of XL’s risk register of risks and related owners
• Stress Testing including regulatory prescribed stress tests:
  ◦ Quarterly run of natural catastrophe and modelled terrorism
  ◦ Market risk analyses which are updated monthly
  ◦ Realistic Disaster Scenario’s (“RDS”) produced at least twice per year
  ◦ Monthly market risk stress tests
  ◦ Quarterly liquidity risk stress tests
  ◦ "Black Swan” Scenarios which explore low probability but large impact events - no set frequency but typically several undertaken each year
  ◦ Periodically undertake reverse stress test analysis
  ◦ Annually undertake operational risk scenario development / review
  ◦ Ad hoc stress test / scenario reviews
  ◦ Stress tests that may be requested, from time to time, by various regulatory authorities
• Internal Model runs
• Annual Bermuda Standard Formula calculation
• Production of risk dashboards for ERC (monthly) and RFC (quarterly)
• Regular production of risk dashboards for sub-committees of ERC, as appropriate
• Annual review of RMF, risk policies and ORSA policy
• Annual calculation of technical provisions
• Annual calculation of own funds

The ORSA process includes procedures that enable XL to reliably monitor its compliance with risk appetites, economic capital and also regulatory capital requirements whilst taking into account potential future changes in the risk profile and considering stressed situations.

The production of the full ORSA report is done annually. The frequency of the underlying ORSA processes, including risk quantification and risk monitoring (including against risk appetites) to support this is listed above.

The frequency of each ORSA process mentioned above has been set to allow for appropriate identification, assessment, measurement, control and monitoring of risks to the business.

Where XL performs a non-regular ORSA (i.e. an ORSA following a significant change in the risk profile) XL will promptly report the results of the ad hoc ORSA to the RFC and to legal entities as appropriate.

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

The Group Risk Management Framework 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 Group on a timely basis. From this, we can see that the Group’s risk profile is consistent with its Board approved limit and risk appetite framework.

XL calibrates its ORSA capital to support the risk profile and its risk appetites over a 1 year time horizon in line with its ORSA Policy, and consistent with its A+ rating.

The Group uses its ICM to calculate the required capital to support its business plans on the basis of risks facing the business. The ICM covers all material risks that can be quantified using recognized actuarial techniques. Risks not included in the ICM are discussed in the ORSA and subject to alternative risk management techniques, including stress tests.

In Q4 2016 a new integrated XL Group ICM was completed which included a full re-parameterization of all risk categories and dependencies, documentation, and oversight by experts and internal governance bodies. It was used during the 2017 budget process, to measure expected compliance with the 2017 proposed RAF and was used to calculate the 2017 ORSA capital. During 2017 the Bermuda Monetary Authority (BMA) granted approval for XL Group and XL Bermuda Ltd to use the ICM to calculate the Enhanced Capital Requirement (ECR) for the financial year ended December 31, 2017 onwards.

The ORSA process is designed to keep the Board’s Risk and Finance Committee (“RFC”) continually apprised as to the Company’s capital positioning in economic, rating agency and regulatory terms.

**B.3.4. Solvency self-assessment approval process**

An overview of the minimum roles and responsibilities required for the ORSA process and the ORSA Report are set out below.
BOARD AND RFC

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

- Oversees ERM activities, including the risk management framework employed by management. With respect to the overall risk management framework, the RFC (i) reviews and approves the methodology for establishing our overall risk capacity and limits; (ii) reviews and approves the policies for the establishment of risk limit frameworks, and adherence to such limits; and (iii) reviews adherence to such limits and exceptions thereto form time to time as necessary.

- Reviews our overall risk profile and monitors key risks across our organization as a whole, which may involve coordination with other committees of the Board from time to time as appropriate.

- Reviews our process controls over model use and development with respect to model risk and model effectiveness, accuracy and propriety.

- Monitors our risk management performance and obtains reasonable assurance from management that our risk management policies are effective and are being adhered to.

The review of our overall risk appetites and the evaluation of the risk impact of any material strategic decision being contemplated, including consideration of whether such strategic decision is within the risk profile established by us, is conducted by the full Board. "Risk appetites," as referred to above, are broad statements used to guide our risk and reward preferences over time, all consistent with, among other factors, business prudence, market opportunities, the underwriting pricing cycle and investment climate. Risk appetites are regularly monitored and can change over time in light of the above. See "Risk Appetite Management" in XL’s 2017 Form 10-K for additional details.

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

- Review and challenge outputs of ORSA process

- Review and challenge the overall annual ORSA report

Legal entity Boards shall be made aware of the Group ORSA report and ORSA outcomes as appropriate and shall be responsible for their own ORSA processes at a local level.

ERC

The ERC is comprised of senior management from our businesses and functions and is charged with developing and monitoring enterprise risk policies, risk appetites, risk limits (and compliance with such limits) and risk aggregations, and identifying key emerging risks and ways to mitigate such risks.

- Review outputs from the ORSA process and report results and findings to the RFC as appropriate.

- Review the annual ORSA Report and recommend approval of report to the Board.

- Review outputs from the ICM and reports from the model validation committee and report results and findings to the RFC as appropriate.

ORSA PROCESS OWNERS

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

- Key ORSA process owners are detailed below:
<table>
<thead>
<tr>
<th>ORSA Process</th>
<th>Owner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal model runs</td>
<td>Head of Capital Modelling</td>
</tr>
<tr>
<td>Risk Budget (and related stress tests)</td>
<td>Head of Credit Risk Management</td>
</tr>
<tr>
<td>Standard Formula Calculations</td>
<td>Group Controller</td>
</tr>
<tr>
<td>Own Funds Calculations</td>
<td>Group Controller</td>
</tr>
<tr>
<td>Technical Provisions Calculations (where appropriate)</td>
<td>Group Chief Actuary</td>
</tr>
<tr>
<td>Actuarial Function Report</td>
<td>Group Chief Actuary</td>
</tr>
<tr>
<td>Annual Risk Assessment (Risk Register)</td>
<td>Head of Validation and Risk Governance</td>
</tr>
<tr>
<td>Business Planning</td>
<td>Group Controller</td>
</tr>
<tr>
<td>Emerging Risks Process</td>
<td>Head of Non Natural Perils Risk Management</td>
</tr>
</tbody>
</table>

**B.4. Internal Controls**

**B.4.1. Internal control system**

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

FIC’s core strategic objectives include:

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

The FIC function performs an annual assessment of the control framework which includes: risk identification, risk assessment and planning, documenting business processes, evaluation and validation of key risks and controls, and issue management.
B.4.2. Compliance function

The Chief Compliance Officer (“CCO”) of the Company is responsible for the formulation and implementation of an effective compliance program.

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

Certain of the Company’s subsidiaries are subject to insurance and/or reinsurance regulation and supervision in the jurisdictions where they are domiciled and licensed to conduct business and each regulated entity has a designated compliance officer with reporting lines ultimately to the CCO.

Compliance Policy

The Company’s Enterprise Risk Committee, under delegated authority from the Audit Committee, is responsible for approval of the Company’s Compliance Policy and Program (the “Compliance Policy”) a copy of which is available on the Company’s public website.

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

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

Code of Conduct

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

Compliance Monitoring & Reporting

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

The Audit Committee advises the Board, at least annually, with respect to the Company’s policies and procedures regarding compliance with applicable laws and regulations and with the Code of Conduct. The Audit Committee also reviews at least annually, with the CCO, compliance with the Code of Conduct, as well as the implementation and effectiveness and the administration, training, monitoring and auditing of the Compliance Policy. The Audit Committee also will discuss with the CCO, the Group General Counsel and the independent auditor, as appropriate, any correspondence with regulators or governmental agencies and any employee complaints or published reports which raise material issues regarding the Company’s financial statements or accounting policies, or material compliance weaknesses or violations.


B.5. Internal audit function

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

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

B.5.1. Internal audit process

The internal audit process is set out below:

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

B.5.2. Internal audit independence

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

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

B.6. Actuarial function

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

B.6.1. Regulatory Compliance

The Actuarial Function operates in accordance with applicable Bermuda regulation (e.g. the Insurance (Group Supervision) Rules 2011).

B.6.2. Roles and Structure

The Group's Approved Actuary and the Actuarial Function, which advises the Board, is established internally, as opposed to being outsourced to third-party service providers, and is embedded in the Group's corporate governance framework. The Group is committed to maintaining an effective Actuarial Function to ensure that the business is conducted in an appropriate and reasonable manner within the Group.

The Actuarial Function is split into two core functions: Actuarial Reserving / Financial Reporting which is responsible for loss reserving and reporting and Pricing and Analytics which is responsible for pricing and underwriting.
The responsibilities of the Actuarial Function are shared by a number of key individuals who are supported by their respective teams. These teams are of sufficient size and consist of suitably qualified and experienced people that meet the Group's minimum fitness and proper employment criteria. The teams are structured with varying lines of defense to facilitate effective peer review and independent challenge.

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

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

**B.6.4. Actuarial Function Responsibilities**

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

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

Additional responsibilities relating to capital modelling:

- The Actuarial Function has an additional responsibility in contributing to the effective implementation of the risk management system, in particular with respect to providing inputs and offering insights related to the risk modelling underlying the calculation of the capital requirements within the ICM;
- The Actuarial Function is responsible for specifying which risks within their domain of expertise are covered by the ICM. The Actuarial Function also offers insights into the nature of dependencies between these risks.
B.7.   Outsourcing

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

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

- Arrangements with an individual vendor covering business services to a certain annual value;
- Specific delegated underwriting arrangements based upon agreed criteria and the Risk Based Approach ("RBA") Guidelines;
- Specific delegated claims handling arrangements identified by the Claims Delegated Arrangement team based upon certain outstanding claims reserves or the Group’s Outsourcing Sub Committee (“GOSC”);
- Specific Investment Management arrangements as identified by XL Investments Ltd, which is a subsidiary of the Company; and
- Other ad hoc outsourcing arrangements that GOSC may consider as being material to XL Group for financial, operational or reputational reasons.

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

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

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

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

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

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

B.7.2.   Material intra-Group outsourcing

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

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

- Advising on investment strategy;
- Appointing investment managers;
- Providing investment reporting; and
- Setting benchmarks.
B.8. Other material information

For the year ended December 31, 2017, there is no other material information regarding Governance Structure required to be disclosed for purposes of this FCR.

C. Risk Profile

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


C.1.1. Underwriting risk

Underwriting risk (Insurance risk) is defined using the following categories:

<table>
<thead>
<tr>
<th>Component</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting risk</td>
<td>Underwriting risk derives from insurance and reinsurance policies written for the current period and also from unearned exposure from prior periods. The risk is that the corresponding premium will be insufficient to cover future claims and other costs or more generally that the underwriting profitability from this tranche of business will be less than expected. Underwriting risk includes man-made catastrophe events and natural catastrophe events.</td>
</tr>
<tr>
<td>Reserve risk</td>
<td>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.</td>
</tr>
<tr>
<td>Lapse risk</td>
<td>Lapse risk is the risk of loss, or of adverse change in the value of insurance future profits, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders. This includes policies where an assumption has been made about renewal that may not be warranted based on past experience either in terms of actual treaties or underlying policies issued and renewable.</td>
</tr>
</tbody>
</table>

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

- **Business planning** - Analysis is undertaken of the underwriting portfolio, exposures, loss experience and changes to the external environment (including market cycle, economic environment) to identify any changes to the insurance risk profile for the forthcoming period of the budget / business plan;

- **Underwriting processes (including guidelines and escalation authorities)** - Each individual contract written is assessed, by the underwriting process (which is subject to granular underwriting guidelines and escalation authorities) for the nature and level of insurance risk that it brings to the business including consideration of the exposure by nature of the limit, the risks insured, the location of the risks and other underwriting criteria;

- **Reserving and claims process** - On an ongoing basis, claims trends are monitored and analysed for any indications of change in the nature of the underlying insurance risk;

- **ERM risk assessment process** - Through the risk assessment processes, the Company quantifies existing risks and also identifies new risks; and

- **Development of RDS and other scenarios.**
C.1.2. Market risk

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

<table>
<thead>
<tr>
<th>Component</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Rate risk</td>
<td>Financial loss or volatility of profits due to the combined sensitivity of the economic value of the investment portfolio to changes in the level or volatility of risk-free (or other benchmark) interest rates.</td>
</tr>
<tr>
<td>Equity - Investment Portfolio</td>
<td>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.</td>
</tr>
<tr>
<td>Real Estate - Investment Portfolio</td>
<td>Financial loss or volatility of profits due to the sensitivity of the investment portfolio to changes in the level or in the volatility of market prices of real estate.</td>
</tr>
<tr>
<td>Spread - Investment Portfolio</td>
<td>Financial loss or volatility of profits due to the sensitivity of the market values of the investment portfolio to changes in the level or in the volatility of credit spreads.</td>
</tr>
<tr>
<td>Foreign Exchange rate risk</td>
<td>Volatility in XL’s Shareholders’ Equity due to changes in the value of XL’s non-USD net assets when translated back to the Group’s USD reporting currency.</td>
</tr>
<tr>
<td>Concentration risk</td>
<td>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.</td>
</tr>
<tr>
<td>Commodity Impact on Investment Portfolio</td>
<td>Financial loss or volatility of profits due to the sensitivity of the market value of the investment portfolio to changes in the level or in the volatility of market prices to commodities.</td>
</tr>
<tr>
<td>Inflation impact on investment portfolio</td>
<td>Financial loss or volatility of profits due to the sensitivity of the market values of the investment portfolio to changes in the level or in the volatility of inflation rates.</td>
</tr>
<tr>
<td>Aggregate: Market risk</td>
<td>The responsibility for the management of the over-arching Group exposure to the above risk.</td>
</tr>
</tbody>
</table>

The Company identifies market risk through the following processes:

<table>
<thead>
<tr>
<th>Process</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business planning</td>
<td>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.</td>
</tr>
<tr>
<td>Investment decisions and asset allocations</td>
<td>The XL Group Investment Portfolio Guidelines, Authorities and Monitoring Framework, which applies to the Company, sets ranges for tactical deviation from the benchmark and is reviewed annually.</td>
</tr>
<tr>
<td>ERM Risk assessment and processes</td>
<td>The risk assessment process assists in identifying if there are any changes to market risks already identified in the previous assessment.</td>
</tr>
</tbody>
</table>

C.1.3. Credit risk

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

<table>
<thead>
<tr>
<th>Component</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reinsurance counterparty Risk</td>
<td>Risk of losses due to the default of a reinsurer or a deterioration of its credit worthiness</td>
</tr>
<tr>
<td>Investment counterparty Risk</td>
<td>Counterparty default risk is the risk of possible losses due to the unexpected default, or deterioration in the credit standing of investment counterparties</td>
</tr>
<tr>
<td>Premium counterparty Risk</td>
<td>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</td>
</tr>
<tr>
<td>Underwriting counterparty Risk</td>
<td>Exposure to credit risk through certain credit sensitive underwriting activities which include, but are not limited to, Surety, Worker’s Compensation, Environmental and Political Risk and Trade Credit</td>
</tr>
</tbody>
</table>

C.1.4. **Liquidity risk**

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

The Company identifies liquidity risk through the following processes:

<table>
<thead>
<tr>
<th>Process</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stress testing</td>
<td>Stressing known and forecasted liquidity positions, downgrade triggers, collateral demands and cash flows by legal entity.</td>
</tr>
<tr>
<td>Treasury</td>
<td>Treasury has responsibility to identify and monitor concentration risk of cash at banks, along with funding requirements.</td>
</tr>
<tr>
<td>ERM Risk assessment and processes</td>
<td>Through the risk assessment processes, the Company quantifies existing risks and also identifies new risks.</td>
</tr>
</tbody>
</table>

C.1.5. **Operational risk**

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

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

**C.1.6. Other material risks**

XL also considers the following risks as part of the Group Risk Management Framework:

- Strategic risk - The risk of the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.
- Group risk - Risk arising as a result of belonging to the XL Group including areas such as capital support, reinsurance arrangements and reputational issues affecting the Group that could indirectly affect the business.
- Asset-liability matching ("ALM") risk - arises directly from a mismatch between assets and liabilities due to changes in rates and spreads, equity and other non fixed income markets/asset classes and credit risks, liquidity, foreign exchange and also from events affecting both asset and liability values.

Controls in relation to these risks are documented in the Group Risk Register and applicable risk policies.

Also see Item 1A (Risk Factors) in the 2017 Form 10-K.

**C.2. Risk mitigation in the organisation**

The Company, through its subsidiaries, is a global insurance and reinsurance company providing property, casualty and specialty products to industrial, commercial and professional firms, insurance companies and other enterprises on a worldwide basis.
**Underwriting Risk**

**Reinsurance Purchase**

The Group operates an outwards third party reinsurance risk transfer program to support the underwriting strategy within risk appetite and to ensure efficient use of capital. Business ceded varies by location and line of business based on a number of factors, including market conditions. The goals of the outwards reinsurance risk transfer program include reducing exposure on individual risks, protecting against catastrophic risks, maintaining acceptable capital ratios and enabling the writing of additional business. The overall goal of the program is to reduce volatility and enhance overall capital efficiency.

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

**Actuarial Function**

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

**Rating adequacy**

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

**Underwriting authorities and guidelines**

All underwriters are assigned individual underwriting authorities with the objective of preserving the capital base and controlling earnings volatility. Authorities within the business units are delegated through the underwriting management structure and the annual review of underwriting limits is part of the business planning process. Authorities are also set in line with agreed risk appetites and risk tolerances for material individual events, the investment portfolio, RDS that cross multiple lines of business and from risks related to some or all of the above that may occur concurrently. The Group, through its subsidiaries, underwrites and prices most risks individually following a review of the exposure and in accordance with its underwriting guidelines. The Group seeks to meet our clients’ needs while controlling our exposure both on a portfolio basis and on individual insurance contracts through terms and conditions, policy limits and sub-limits, attachment points and reinsurance arrangements on certain types of risks.

**New product process**

The Innovation Product Acceleration Strategy, a Group procedure, is designed to track and manage product innovation and obtain approval of new products by the appropriate committees and leadership. All new products are also approved by the appropriate legal entity.

**Market Risk**

**Strategic Asset Allocation**

The Strategic Asset Allocation ("SAA") process establishes a benchmark, subject to various considerations and constraints. It is subject to the risk tolerances recommended by management, and is approved at least annually by the RFC.

**Authorities Framework**

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

Currency risk mitigation

The Company is primarily exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than U.S. Dollars. The Company seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. Asset liability management analysis is run regularly to adjust surplus and shortfall currencies, ensuring that the entity exposures are broadly matched.

The table below outlines the Company’s current exposure by currency:

The following table provides more information on our net exposures to these principal foreign currencies at December 31, 2017 and 2016:

<table>
<thead>
<tr>
<th>(Foreign currency in millions)</th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian dollar</td>
<td>365.3</td>
<td>136.0</td>
</tr>
<tr>
<td>Australian dollar</td>
<td>185.8</td>
<td>68.6</td>
</tr>
<tr>
<td>Singaporean dollar</td>
<td>123.6</td>
<td>140.1</td>
</tr>
<tr>
<td>British pound</td>
<td>115.9</td>
<td>105.3</td>
</tr>
<tr>
<td>Euro</td>
<td>(54.9)</td>
<td>137.7</td>
</tr>
</tbody>
</table>

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

The Investment Group employs a prudent and risk-conscious investment approach and operates within a comprehensive Authorities Framework which defines limits within which the underlying investment portfolios must be managed. This is supplemented by robust compliance monitoring with defined escalation and notification procedures. This framework is designed to identify investment risks in absolute and relative terms, and to consistently and objectively measure, assess, manage and report such risks on an ongoing basis.

Investment risk management is achieved through the regular review of market and credit risk analytics that incorporate distribution-based risk measures such as value-at-risk, scenario and stress testing and portfolio sensitivities to a broad range of risk factors such as interest rates, credit spreads, equities, foreign exchange risk, hedge funds, etc. The investment risk management process forms an integral part of the Group’s ERM framework to ensure a fully integrated view of market, credit, liquidity and concentration risks.

The Company’s policy is to operate the fixed income portfolio with a minimum weighted average credit rating of Aa3/AA-. The aggregate credit rating is determined based on the weighted average rating of securities, where the average credit rating, where available, from Standard & Poor’s ("S&P"), Moody’s Investors Service ("Moody’s") and Fitch Ratings ("Fitch") is allocated to each security. The weighted average credit rating of the aggregate fixed income portfolio was AA as of December 31, 2017 and December 31, 2016. U.S. agencies paper and Agency Residential Mortgage Backed Securities ("RMBS"), whether with implicit or explicit government support, reflect the credit quality rating of the U.S. government for the purpose of these calculations.

Risk appetite and compliance with investment guidelines and authorities are captured through risk reporting to the ERC and RFC and monitored as part of the RAF.

Credit Risk

Credit risk arising from credit sensitive underwriting activities is managed via the underwriting limit framework. Credit risk is managed within the investment portfolio through the Authorities Framework and established investment credit policies, which address the quality of obligors and counterparties, industry limits, and diversification requirements. Exposure to market credit spreads primarily relates to market price and cash flow variability associated with changes in credit spreads.
• Underwriting authorities and limits: see Underwriting Risk (above).

• Investment portfolio: Credit risk is managed in the investment portfolio, including fixed income, alternative and short-term investments, through the credit research performed by both investment management service providers and the in house portfolio management team.

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

• Premium payment and brokers: The Group, through its subsidiaries, underwrites a significant amount of its (re)insurance business through brokers and credit and premium risk exists should any of these brokers be unable to fulfill their contractual obligations with respect to payment balances. Premium credit risk is controlled by premium cancellation provisions for certain lines of business which allow underwriting businesses to cancel policies for non-payment of premium. A list of approved broking houses is maintained.

At December 31, 2017 and 2016, approximately 95.6% and 95.4%, respectively, of the total outstanding unpaid loss and loss expense recoverable and reinsurance balances receivable, net of collateral held, was due from reinsurers with a financial strength rating of "A" or better. The following is an analysis of the total recoverable and reinsurance balances receivable, net of collateral held, at December 31, 2017, by reinsurers owing 3% or more of such total:

<table>
<thead>
<tr>
<th>Name of Reinsurer</th>
<th>Reinsurer Financial Strength Rating</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Munich Reinsurance Co.</td>
<td>AA-/Stable</td>
<td>10.5%</td>
</tr>
<tr>
<td>Lloyd's Syndicates</td>
<td>A+/Negative</td>
<td>7.4%</td>
</tr>
<tr>
<td>Arch Reinsurance Company</td>
<td>A+/Negative</td>
<td>7.3%</td>
</tr>
<tr>
<td>Transatlantic Reinsurance Company</td>
<td>A+/Stable</td>
<td>5.1%</td>
</tr>
<tr>
<td>AXIS Reinsurance Co.</td>
<td>A+/Negative</td>
<td>5.0%</td>
</tr>
<tr>
<td>Endurance Assurance Corporation</td>
<td>A/Positive</td>
<td>4.3%</td>
</tr>
<tr>
<td>Hannover Rueck SE</td>
<td>AA-/Stable</td>
<td>3.5%</td>
</tr>
<tr>
<td>National Indemnity Company</td>
<td>AA+/Negative</td>
<td>3.1%</td>
</tr>
<tr>
<td>Swiss Reinsurance Co.</td>
<td>AA-/Stable</td>
<td>3.1%</td>
</tr>
<tr>
<td>Everest Reinsurance (Bermuda) Ltd</td>
<td>A+/Stable</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

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, 2017:

<table>
<thead>
<tr>
<th>Reinsurer Financial Strength Rating</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>— %</td>
</tr>
<tr>
<td>AA</td>
<td>37.0%</td>
</tr>
<tr>
<td>A</td>
<td>58.6%</td>
</tr>
<tr>
<td>BBB</td>
<td>0.5%</td>
</tr>
<tr>
<td>BB and below</td>
<td>0.7%</td>
</tr>
<tr>
<td>Captives</td>
<td>3.1%</td>
</tr>
<tr>
<td>Not Rated</td>
<td>0.1%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

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

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

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

Liquidity risk is managed through:

- **Investment portfolio liquidity** - The annual SAA process determines the structure of the benchmark that maximises the value of the Company subject to risk tolerance and other constraints. The key output of the SAA process is an investment portfolio benchmark, which takes into account management’s risk tolerance, liability cash flows, business plan, peer analysis and regulatory considerations.

- **Asset-Liability Management (ALM)** - The Group conducts detailed ALM analysis to match the average duration of its liabilities with appropriate assets.

- **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 authorisation for the inclusion of a downgrade clause in a contract.

The Treasury department serves 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 investments portfolio, comprise the primary sources of liquidity with the Company.

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

**Operational Risk**

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

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

**Purchase of insurance**

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

The risks are monitored and managed through the risk framework and the operational loss event reporting process. Based on the above factors considered in scenario and stress testing, all operational risks at December 31, 2017 are deemed to be within risk appetite, as reported via the Risk Dashboard and ORSA report to the ERC and Board. All operational risk controls are documented in the Group Risk Register and in a number of underlying policies that address operational risk such as the Code of Conduct, Business Continuity and IT Security policies.
C.3. Material risk concentrations

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

In relation to event risk management, we establish net underwriting limits for individual large events as follows:

1. We impose limits for each natural catastrophe peril region at a 1% tail value at risk ("TVaR") probability. This statistic indicates the average amount of net loss expected to be incurred if a loss above the 1% exceedance probability level has occurred.
2. For each event type other than natural catastrophes, we impose limits at a 1% exceedance probability. If we were to deploy the full limit, for any given event type, there would be a 1% probability that an event would occur during the next year that would result in a net underwriting loss in excess of the limit.
3. We also impose limits for certain other event types at a 0.4% exceedance probability as described in further detail below. If we were to deploy the full limit, for any such given event type, there would be a 0.4% probability that an event would occur during the next year that would result in a net underwriting loss in excess of the limit.

For planning purposes and to calibrate 2018 risk tolerances, we set our underwriting limits as a percentage of September 30, 2017 adjusted tangible capital (“Adjusted Tangible Capital” or "ATC"). Adjusted Tangible Capital is defined as Total Shareholders’ Equity plus (i) outstanding subordinated notes due 2025, 2045 and 2047, less (ii) Goodwill and Other Intangible Assets, less (iii) Accumulated Other Comprehensive Income (“AOCI”) (excluding certain net balances associated with Life Funds Withheld Assets), plus (iv) an adjustment for a portion of the following year’s expected earnings net of expected annual dividends and expected buybacks of our Common Shares. These limits may be recalibrated, from time to time, to reflect material changes in Total Shareholders’ Equity that may occur, at the discretion of management and as overseen by the Board.

Tiered risk tolerances are set for natural catastrophes, terrorism, other realistic disaster scenarios, credit risk, country risk, longevity risk and mortality risk. In setting our risk tolerances, we consider such factors as:

- Anticipated risk adjusted returns;
- Strategic risk preferences;
- Relativity to peers;
- Shareholder expectations;
- Robustness of exposure assessment methodology; and
- Projected enterprise loss potential.

Underwriting risk limits imposed include:

Per event 1% TVaR underwriting limits for North Atlantic Windstorm are set at a level not to exceed approximately 25% of ATC. Per event 1% TVaR underwriting limits for North American Earthquake are set at a level not to exceed approximately 20% of ATC. Per event 1% TVaR underwriting limits for all other natural catastrophe peril regions are set below the per event 1% TVaR limits described above.

The largest per event 1% exceedance probability underwriting limit for terrorism and other realistic disaster scenarios is set at a level not to exceed approximately 13.5% of ATC; limits at the per event 1% exceedance probability for the remaining terrorism and realistic disaster scenarios are set below this level.

The largest per event 1% exceedance probability underwriting limit for country risk is set at a level not to exceed approximately 9.5% of ATC.

The largest per event 1% exceedance probability underwriting limit for mortality risk is set at a level not to exceed approximately 6.1% of ATC.
The largest per event 1% exceedance probability underwriting limit for longevity risk is set at a level not to exceed approximately 1.5% of ATC.

The largest per event 0.4% exceedance probability underwriting limit for certain terrorism events is set at a level not to exceed approximately 18% of ATC; limits at the per event 0.4% exceedance probability for the remaining terrorism event scenarios are set below this level.

The largest per event 0.4% exceedance probability underwriting limit for mortality risk is set at a level not to exceed approximately 8.1% of ATC.

The largest per event 0.4% exceedance probability underwriting limit for longevity risk is set at a level not to exceed approximately 2.0% of ATC.

In all instances, the above referenced underwriting limits reflect pre-tax losses net of reinsurance and include inwards and outwards reinstatement premiums related to the specific events being measured. The limits do not contemplate underwriting profits expected to be generated in the absence of catastrophic loss activity.

In setting underwriting limits, we also consider such factors as:

- Correlation of underwriting risk with other risks (e.g., asset/investment risk, operational risk, etc.);
- Model risk and robustness of data;
- Geographical concentrations;
- Exposures at lower return periods;
- Expected payback period associated with losses;
- Projected share of industry loss; and
- Annual aggregate losses for natural catastrophes at various return periods, including a 1% exceedance probability and a 1% TVaR level on both a peril region basis and a portfolio basis.

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

- Inaccurate assumptions of event frequency and severity;
- Inaccurate or incomplete data;
- Changing climate conditions that may add to the unpredictability of frequency and severity of natural catastrophes in certain parts of the world and create additional uncertainty as to future trends and exposures;
- Future possible increases in property values and the effects of inflation that may increase the severity of catastrophic events to levels above the modeled levels;
- Natural catastrophe models that incorporate and are critically dependent on meteorological, seismological and other earth science assumptions and related statistical relationships that may not be representative of prevailing conditions and risks, and may therefore misstate how particular events actually materialize, causing a material deviation between forecasted and actual damages associated with such events; and
- A change in the legislative, regulatory and judicial climate.
For the above and other reasons, the incidence, timing and severity of catastrophes and other event types are inherently unpredictable and it is difficult to estimate the amount of loss any given occurrence will generate. As a consequence, 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. For this reason, we carry capital in addition to that required by the specific limits described above even if it is in excess of rating agency and regulatory required capital. For a further discussion on risk appetite management see Item 7, "Management’s Discussion and Analysis of Financial Condition and Results of Operations-Other Key Focuses of Management” in the 2017 Form 10-K.

C.4. Investment in assets in accordance with the prudent person principles of the Insurance (Group Supervision) Rules 2011

In line with business objectives, market risk is accepted and managed with the objective of optimising total return on investments subject to agreed risk constraints and other considerations. The investments are managed and monitored by XLGIL and governed through investment agreements and guidelines. The ERM department oversee adherence to these guidelines.

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

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

Underwriting Risk

On a quarterly basis catastrophe exposures are measured and monitored and reported to the ERC and RFC. RDS are also produced twice a year and monitored and reported to ERC and RFC. In relation to event risk management, net underwriting risk tolerances are established for the individual largest events in the risk profile. These are captured through risk reporting to the ERC and Board and monitored as part of the RAF.

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

<table>
<thead>
<tr>
<th>Test type</th>
<th>Reason performed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nat Cat reporting</td>
<td>To monitor Nat Cat exposures against risk appetite</td>
</tr>
<tr>
<td>RDS reporting</td>
<td>To monitor non-Nat Cat exposures against risk appetite and to assist in the setting of overall risk limits</td>
</tr>
</tbody>
</table>

Natural catastrophe exposure results and RDS exposure results are used to monitor exposure to the defined scenarios and monitor compliance with underwriting risk tolerances and limits. RDS cover both short and long tail lines of business and cross class event exposures. The ERC (and RFC) are informed of results of stress tests performed via risk dashboards and the ORSA report throughout the year where discussions and challenge include whether the results fall within relevant approved risk tolerances and limits.

We examine a range of extreme events intended to stress our capital position. Considering the 1 in 100 underwriting risk for natural catastrophes, our largest natural catastrophe exposure for the Group relates to a North Atlantic Windstorm. The 1 in 100 exposure is estimated on a per event net occurrence exceedance probability (OEP) basis which is calculated using Risk Management Solutions ("RMS") catastrophe modelling software. The 1 in 100 exposure on a net occurrence exceedance probability (OEP) basis for North Atlantic Windstorm at January
1, 2018 is $864m. Following the loss implied by this event, the Company's Bermuda based solvency ratio (BSCR) remains above 120%.

Following an event derived from the net exposure of the largest RDS scenario for XL which is estimated using January 1, 2018 inforce exposures (measured at a 1 in 100 level of confidence on a per event net occurrence exceedance probability (OEP) basis), the Company's Bermuda based solvency ratio (BSCR) remains above 120%.

Based on the above factors considered in stress testing the underwriting limits, all underwriting risks at December 31, 2017 are within risk appetite as reported via the risk dashboard and ORSA report to the ERC and RFC.

Market Risk

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

- Interest rate and spread sensitivities: by re-valuing current portfolio holdings assuming various changes in the level and term structure of interest rates and the level of credit spreads;
- Historical stress tests and Black Swan scenarios identified by ERM and the Group Investments covering economic, financial and political events and the potential impact to the investment portfolio.
- RDS aggregations; and
- Ad hoc review of enterprise risk scenarios.

As part of our Stress Testing process, we have developed scenarios based on the results and outcomes that manifested themselves in large historical market events. Should losses be incurred in a magnitude implied by the largest of these simulated historical events at December 31, 2017, the Company’s Bermuda based solvency ratio (BSCR) remains in excess of 120%.

The ERC and RFC, where appropriate, are informed of results of stress tests performed throughout the year including whether the results fall within relevant approved risk tolerances and limits set out in the investment guidelines. Based on the above factors considered in scenario and stress testing, all market risks at December 31, 2017 are deemed to be within risk appetites, as reported via the Risk Dashboard and ORSA report to the ERC and RFC.

At December 31, 2017, total investments and cash and cash equivalents, including accrued investment income and net receivable/(payable) for investments sold/(purchased) but excluding Life Funds Withheld Assets, were approximately $37.2 billion. The following table summarizes the composition of our invested assets, excluding Life Funds Withheld Assets, at December 31, 2017 and 2016:
(U.S. dollars in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>Percent of Total</th>
<th>2016</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Carrying Value (1)</strong></td>
<td><strong>Carrying Value (1)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>3,435,953</td>
<td>9.3 %</td>
<td>3,426,988</td>
<td>9.4 %</td>
</tr>
<tr>
<td>Restricted cash</td>
<td>74,395</td>
<td>0.2 %</td>
<td>62,137</td>
<td>0.2 %</td>
</tr>
<tr>
<td>Net receivable/ (payable) for investments sold/ (purchased)</td>
<td>(131,474)</td>
<td>(0.4)%</td>
<td>(97,482)</td>
<td>(0.3)%</td>
</tr>
<tr>
<td>Accrued investment income</td>
<td>220,299</td>
<td>0.6 %</td>
<td>230,158</td>
<td>0.6 %</td>
</tr>
<tr>
<td><strong>Fixed maturities - AFS:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government and Government-Related/Supported</td>
<td>4,362,740</td>
<td>11.8 %</td>
<td>3,894,388</td>
<td>10.6 %</td>
</tr>
<tr>
<td>U.S. States, municipalities and political subdivisions</td>
<td>2,064,640</td>
<td>5.6 %</td>
<td>2,478,112</td>
<td>6.8 %</td>
</tr>
<tr>
<td>Non-U.S. Governments</td>
<td>5,201,581</td>
<td>14.0 %</td>
<td>5,030,132</td>
<td>13.8 %</td>
</tr>
<tr>
<td>Corporate</td>
<td>9,795,133</td>
<td>26.4 %</td>
<td>10,134,729</td>
<td>27.7 %</td>
</tr>
<tr>
<td>RMBS</td>
<td>4,724,402</td>
<td>12.7 %</td>
<td>4,492,625</td>
<td>12.2 %</td>
</tr>
<tr>
<td>CMBS</td>
<td>1,244,017</td>
<td>3.4 %</td>
<td>665,186</td>
<td>1.8 %</td>
</tr>
<tr>
<td>Other asset-backed securities</td>
<td>1,509,363</td>
<td>4.1 %</td>
<td>1,253,388</td>
<td>3.4 %</td>
</tr>
<tr>
<td><strong>Total fixed maturities - AFS</strong></td>
<td>28,901,876</td>
<td>77.9 %</td>
<td>27,948,560</td>
<td>76.3 %</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>815,481</td>
<td>2.2 %</td>
<td>625,193</td>
<td>1.7 %</td>
</tr>
<tr>
<td>Equity securities</td>
<td>713,967</td>
<td>1.9 %</td>
<td>1,037,331</td>
<td>2.8 %</td>
</tr>
<tr>
<td>Investments in affiliates</td>
<td>1,911,996</td>
<td>5.2 %</td>
<td>2,177,645</td>
<td>6.0 %</td>
</tr>
<tr>
<td>Other investments</td>
<td>1,163,863</td>
<td>3.1 %</td>
<td>1,164,564</td>
<td>3.3 %</td>
</tr>
<tr>
<td><strong>Total investments and cash and cash equivalents</strong></td>
<td><strong>37,237,830</strong></td>
<td><strong>100.0 %</strong></td>
<td><strong>36,575,094</strong></td>
<td><strong>100.0 %</strong></td>
</tr>
</tbody>
</table>

(1) Carrying value represents the fair value of AFS fixed maturities.
We review our fixed income investments on a regular basis to consider their concentration, credit quality and compliance with established guidelines. At December 31, 2017 and 2016, the average credit quality of our total fixed income portfolio was "AA." Included in the table below are the credit ratings of the fixed income portfolio excluding operating cash at December 31, 2017 and 2016:

<table>
<thead>
<tr>
<th>Investments by Credit Rating (1) (U.S. dollars in millions)</th>
<th>December 31, 2017</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>$ 14,511</td>
<td>$ 14,037</td>
</tr>
<tr>
<td>AA</td>
<td>4,826</td>
<td>6,323</td>
</tr>
<tr>
<td>A</td>
<td>6,077</td>
<td>7,101</td>
</tr>
<tr>
<td>BBB</td>
<td>3,322</td>
<td>2,072</td>
</tr>
<tr>
<td>BB and / not rated</td>
<td>981</td>
<td>731</td>
</tr>
<tr>
<td>Total</td>
<td>$ 29,717</td>
<td>$ 30,264</td>
</tr>
</tbody>
</table>

(1) The credit rating for each asset reflected above was principally determined based on the weighted average rating of the individual securities from Standard & Poor's, Moody's Investors Service and Fitch Ratings (when available). U.S. Agency debt and related mortgage-backed securities, whether with implicit or explicit government support, reflect the credit quality rating of the U.S. government for the purpose of these calculations. For U.S. Government and government agencies, the average rating remain AAA as only one of three major rating agencies downgraded the U.S. from AAA to AA+ in 2011.

Sensitivity and Value-at-Risk Analysis (Excluding Life Funds Withheld Assets)

The table below summarizes the Group's assessment of the estimated impact on the value of our investment portfolio at December 31, 2017 associated with an immediate and hypothetical: +100 bps increase in interest rates, a -10% decline in equity markets, a +100 bps widening in spreads and a +10% widening in spreads. The table also reports the 95%, 1-year VaRs for our investment portfolios at December 31, 2017, excluding foreign exchange. The interest rate, spread risk, and VaR shown in the table below exclude Life Funds Withheld Assets. The estimated results at December 31, 2017 below also do not include any risk contributions from our various operating affiliates (strategic and other or investment manager) or certain other investments that are carried at amortized cost.
Credit Risk

There is an embedded stress testing framework that is used to understand possible impacts of major risks, including credit risks. Stress tests and scenario analysis are undertaken to monitor exposure to the defined scenarios that allow monitoring of exposure to credit risks. These scenarios help to understand potential losses to ensure that the

### Total Investment Portfolio (7)

<table>
<thead>
<tr>
<th>Component</th>
<th>Interest Rate Risk (1)</th>
<th>Equity Risk (2)</th>
<th>Absolute Spread Risk (3)</th>
<th>Relative Spread Risk (4)</th>
<th>VaR (5) (6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>P&amp;C Fixed Income Portfolio</td>
<td>$1,233</td>
<td>$209</td>
<td>$1,120</td>
<td>$70</td>
<td>$711</td>
</tr>
<tr>
<td>Cash &amp; Short Term Investments and Derivatives</td>
<td>4</td>
<td>—</td>
<td>3</td>
<td>—</td>
<td>13</td>
</tr>
<tr>
<td>Total Government Related</td>
<td>451</td>
<td>—</td>
<td>249</td>
<td>5</td>
<td>243</td>
</tr>
<tr>
<td>Total Corporate Credit</td>
<td>422</td>
<td>—</td>
<td>456</td>
<td>37</td>
<td>265</td>
</tr>
<tr>
<td>Total Structured Credit</td>
<td>356</td>
<td>—</td>
<td>412</td>
<td>27</td>
<td>248</td>
</tr>
<tr>
<td>Non-Fixed Income Portfolio</td>
<td>—</td>
<td>209</td>
<td>—</td>
<td>—</td>
<td>211</td>
</tr>
<tr>
<td>Equity Portfolio</td>
<td>—</td>
<td>57</td>
<td>—</td>
<td>—</td>
<td>61</td>
</tr>
<tr>
<td>Hedge Fund Portfolio</td>
<td>—</td>
<td>66</td>
<td>—</td>
<td>—</td>
<td>86</td>
</tr>
<tr>
<td>Private Investments</td>
<td>—</td>
<td>86</td>
<td>—</td>
<td>—</td>
<td>84</td>
</tr>
<tr>
<td>Other</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

### Notes:

1. The estimated impact on the fair value of our fixed income portfolio of an immediate hypothetical +100 bps adverse parallel shift in global bond curves.
2. The estimated impact on the fair value of our investment portfolio of an immediate hypothetical -10% change in the value of equity exposures in our equity portfolio, certain equity-sensitive hedge fund investments and private equity investments. This includes our estimate of equity risk embedded in the hedge fund and private investment fund portfolio with such estimates utilizing market exposures provided to us by certain individual fund investments, internal statistical analyses, and/or various assumptions regarding illiquidity and/or non-market related illiquidity.
3. The estimated impact on the fair value of our fixed income portfolio of an immediate hypothetical +100 basis point increase in all global government related, corporate and structured security spreads to which our fixed income portfolio is exposed. This excludes exposure to credit spreads in our hedge fund, private investment funds and counterparty exposure.
4. The estimated impact on the fair value of our fixed income portfolio of an immediate hypothetical +10% increase in all global government related, corporate and structured security spreads to which our fixed income portfolio is exposed. This excludes exposure to credit spreads in our hedge fund, private investment funds and counterparty exposure.
5. The VaR results are based on a 95% confidence interval, with a one-year holding period, excluding foreign exchange rate risk. Our investment portfolio VaR at December 31, 2017 is not necessarily indicative of future VaR levels as these are based on statistical estimates of possible price changes and, therefore, exclude other sources of investment return such as coupon and dividend income.
6. The VaR results are the standalone VaRs, based on the prescribed methodology, for each component of our Total Investment Portfolio. The standalone VaRs of the individual components are non-additive, with the difference between the summation of the individual component VaRs and their respective aggregations being due to diversification benefits across the individual components. In the case of the VaR results for our Total Investment Portfolio, the results also include the impact associated with our Business and other investments.
7. Our Total Investment Portfolio also includes our Business and other investments that do not form part of our Fixed Income Portfolio or Non-Fixed Income Portfolio. The individual results reported in the above table for our Total Investment Portfolio therefore represent the aggregate impact on our Fixed Income Portfolio, Non-Fixed Income Portfolio and the majority of our other investments.

In the table above, VaR does not provide the means to estimate the magnitude of the loss in the 5% of occurrences when we expect the VaR level to be exceeded. To complement the VaR analysis based on normal market environments, we consider the impact on the investment portfolio in several different stress scenarios to analyze the effect of unusual market conditions. We establish certain stress scenarios that are applied to the actual investment portfolio. As these stress scenarios and estimated gains and losses are based on scenarios established by us, they will not necessarily reflect future stress events or gains and losses from such events. The results of the stress scenarios are reviewed on a regular basis to ensure they are appropriate, based on current shareholders' equity, market conditions and our total risk tolerance. It is important to note that, when assessing the risk of our investment portfolio, we do not take into account either the value or risk associated with the liabilities arising from our operations.

At December 31, 2017, the Market Risk VaR for XL (95% confidence level) was $711 million - see table above. Should a loss implied by this VaR materialize, the Company’s Bermuda based solvency ratio (BSCR) remains above 120%.
Company is prepared to withstand projected losses from these events, including ensuring that there is adequate capital, liquidity to manage through the event and maintain the Group as a going concern.

Our credit risk framework establishes a 1% exceedance credit clash limit at a level not to exceed approximately 25% of Adjusted Tangible Capital in order to manage the direct and indirect credit exposures arising from underwriting and non underwriting activities that could potentially be impacted in various degrees by a systemic credit event (e.g. our investment portfolio, credit sensitive underwriting activities, unsecured exposures arising from reinsurance recoverable counterparties, brokers and other obligor counterparties). The Company’s Bermuda based solvency ratio (BSCR) remains above 120% after considering the loss potential implied by our exposure to this scenario at December 31, 2017.

Liquidity Risk

There is an embedded stress testing framework that is used to understand possible impacts of major risks, including liquidity risks. A stressed liquidity analysis report is prepared on a quarterly basis by Treasury, which includes the Company’s own view of the stressed sources and uses of liquidity.

Based on the above factors considered in scenario and stress testing, all liquidity risks are deemed to be within risk appetite, as reported via the Risk Dashboard and ORSA report to the ERC and RFC.

Further, as of December 31, 2017, our Bermuda based solvency ratio (BSCR) remains above 120% after an assumed 1% OEP ALM loss Event.

Operational Risk

To support the identification and quantification of operational risks within the business and to help parameterise the internal model, the Company has a stress and scenario testing framework.

The stress testing includes multiple operational risk scenarios which are evaluated over multiple return periods for each scenario.
The operational scenarios are developed from the top risks assessed during the annual risk assessment process on both a gross and net assessment basis. The scenarios have multiple uses including:

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

Our Bermuda based solvency ratio (BSCR) remains above 120% at December 31, 2017 after an assumed 1% OEP Operational Risk loss event.

### C.6. Other material information

Please refer to Item 1.A., Risk Factors included in the 2017 Form 10-K for a discussion of items that could have a significant or material effect on our business.

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

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

### D. Solvency Valuation

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

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

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

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

**Unquoted investments** are recorded at fair value in line with US GAAP with both changes in fair value and realized gains/losses netted off Statutory Economic Capital and Surplus. In cases where the GAAP principles do not require fair value, the Company values the unquoted investment using the EBS valuation hierarchy.

The key reason for the difference between EBS and US GAAP for investments is due to certain investments in the US GAAP balance sheet that are held at amortized cost. Under EBS all of these investments are required to be held at fair value.
The majority of our investments are fixed income securities, the valuation of which is classified as Level 2 (quoted prices for similar assets) as they are not considered to be traded in an active market. With an active market, financial instruments should be traded multiple times per day. This cannot be asserted for our fixed income securities as they do not necessarily trade every day. A small amount of investments are measured at Level 3 (mark to model).

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

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

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

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

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

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

**Investments in and Advances to Affiliates.** The Company consolidates holdings in affiliates where it is deemed to have control under its US GAAP accounting principles.

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

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

In the EBS, the goodwill and intangible asset element of the participation valuation is eliminated, in accordance with the reasons given above. Each period end the performance of all affiliate investments are reviewed and our share of the company’s change in equity is recorded each period based on the financial information received directly from the affiliate. We also receive their audited financial statements when available. This valuation adjustment was $91.2 million at December 31, 2017.

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

Real Estate includes land and properties owned and occupied by the Company and is recorded at cost less any accumulated depreciation and impairment loss under US GAAP. This is deemed to be materially equivalent to fair value and is used as a proxy for fair value under EBS.

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

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

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

Funds held by ceding reinsurers (whether affiliate or not) are recorded at fair value in line with US GAAP.

Deferred acquisition costs (“DAC”) are costs relating to the acquisition of new business for insurance contracts. Under US GAAP these costs are deferred to the extent that they are expected to be recovered out of future margins in revenues on these contracts. DAC are implicitly included in the premium provisions valuation and not reflected as an asset in the EBS.

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

Derivative instruments are recorded at fair value in line with US GAAP with both changes in fair value and realized gains/losses netted off Statutory Economic Capital and Surplus. The difference between GAAP and EBS relates to a Life contract that is classed as a derivative under US GAAP, but included within Life technical provisions (“TPs”) under Solvency II and for BMA filings. There is an equal and opposite adjustment to derivative liabilities and therefore the net impact on Own Funds is nil.

Derivative contracts can be exchange-traded or over-the-counter (“OTC”). Exchange-traded derivatives (futures and options) typically fall within Level 1 of the fair value hierarchy depending on whether they are deemed to be actively traded or not. OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources where an understanding of the inputs utilized in arriving at the valuations is obtained. Where models are used, the selection of a particular model to value an OTC derivative depends upon the contractual terms and specific risks inherent in the instrument as well as the availability of
pricing information in the market. The Group generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, interest rate swaps and options, model inputs can generally be verified and model selection does not involve significant management judgment. Such instruments comprise the majority of derivatives held by the Group and are typically classified within Level 2 of the fair value hierarchy.

Certain OTC derivatives trade in less liquid markets with limited pricing information, or required model inputs which are not directly market corroborated, which causes the determination of fair value for these derivatives to be inherently more subjective. Accordingly, such derivatives are classified within Level 3 of the fair value hierarchy. The valuations of less standard or liquid OTC derivatives are typically based on Level 1 and/or Level 2 inputs that can be observed in the market, as well as unobservable Level 3 inputs. Level 1 and Level 2 inputs are regularly updated to reflect observable market changes.

Level 3 inputs are only changed when corroborated by evidence such as similar market transactions, pricing services and/or broker or dealer quotations. The Company conducts its non-hedging derivatives activities in three main areas: investment related derivatives, credit derivatives and other non-investment related derivatives.

The Company uses derivative instruments, primarily interest rate swaps, to manage the interest rate exposure associated with certain assets and liabilities. These derivatives are recorded at fair value. On the date the derivative contract is entered into, the Company may designate the derivative as: a hedge of the fair value of a recognized asset or liability (“fair value” hedge); a hedge of the variability in cash flows of a forecasted transaction or of amounts to be received or paid related to a recognized asset or liability (“cash flow” hedge); or a hedge of a net investment in a foreign operation; or the Company may not designate any hedging relationship for a derivative contract.

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

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

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

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

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

The Lloyd's capacity asset of $660 million meets all of the above criteria and as such is recognized on the EBS.
D.2. Valuation bases, assumptions and methods used to derive the value of technical provisions

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

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

The best estimate for the claims provision is calculated by using Generally Accepted Accounting Principles (GAAP) reserves as the starting point and then performing a series of adjustments:

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

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

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

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

At December 31, 2017 and 2016, the total net Technical Provisions amounted to $25.2 billion and $23.5 billion, respectively, comprising the following (reported in USD thousand units):
As at December 31, 2017:

<table>
<thead>
<tr>
<th></th>
<th>Non-Life</th>
<th>Life</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims Provision</td>
<td>22,365,880</td>
<td>234,690</td>
<td>22,600,570</td>
</tr>
<tr>
<td>Premium Provision</td>
<td>900,037</td>
<td>0</td>
<td>900,037</td>
</tr>
<tr>
<td>Risk Margin</td>
<td>1,725,407</td>
<td>5,886</td>
<td>1,731,293</td>
</tr>
<tr>
<td>Total Technical Provisions</td>
<td>24,991,324</td>
<td>240,576</td>
<td>25,231,900</td>
</tr>
</tbody>
</table>

As at December 31, 2016:

<table>
<thead>
<tr>
<th></th>
<th>Non-Life</th>
<th>Life</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims Provision</td>
<td>20,285,003</td>
<td>222,455</td>
<td>20,507,458</td>
</tr>
<tr>
<td>Premium Provision</td>
<td>1,106,323</td>
<td>0</td>
<td>1,106,323</td>
</tr>
<tr>
<td>Risk Margin</td>
<td>1,882,871</td>
<td>6,221</td>
<td>1,889,092</td>
</tr>
<tr>
<td>Total Technical Provisions</td>
<td>23,274,197</td>
<td>228,676</td>
<td>23,502,873</td>
</tr>
</tbody>
</table>

D.2.2 Uncertainty/limitations Associated with the Value of the Technical Provisions

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

D.3. Description of recoverables from reinsurance contracts

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

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

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

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

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

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

Deposit Liabilities Contracts entered into by the Company that are not deemed to transfer significant underwriting and/or timing risk are accounted for as deposits, whereby liabilities are initially recorded at an amount equal to the assets received. Deposit liabilities are measured at fair value less an adjustment for own credit risk. The Company determined the estimated fair value of the deposit liabilities by assuming a discount rate equal to the appropriate U.S. Treasury rate plus 50.0 basis points.
The Company uses a portfolio rate of return of equivalent duration to the liabilities in determining risk transfer. An initial accretion rate is established based on actuarial estimates whereby the deposit liability is increased to the estimated amount payable over the term of the contract. The deposit accretion rate is the rate of return required to fund expected future payment obligations (this is equivalent to the “best estimate” of future cash flows), which are determined actuarially based upon the nature of the underlying indemnifiable losses. Accretion of the liability is recorded as interest expense. The Group periodically reassesses the estimated ultimate liability. Any changes to this liability are reflected as adjustments to interest expense to reflect the cumulative effect of the period the contract has been in force, and by an adjustment to the future accretion rate of the liability over the remaining estimated contract term.

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

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

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

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

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

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

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

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

**Funds Held Under Reinsurance ("RI") Contracts** Funds withheld liability net of RI recoveries related to the retrocession of the majority of the Group’s Life business. Further information on this arrangement is found on pages 10 and 176 of the 2017 Form 10-K. The reason for the valuation difference is that the RI recovery related to the retrocession contract is higher under EBS compared to US GAAP (and therefore the net funds withheld liability is lower under EBS).

**D.5. Other material information**

For the year ended December 31, 2017, there is no other material information regarding solvency valuation required to be disclosed for purposes of this Financial Condition Report.

**E. Capital Management**

This section provides particulars regarding an assessment of capital needs and regulatory capital requirements.
E.1. Eligible Capital

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

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

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

Also refer to the 2017 Form 10-K (pages 89-94) for a discussion of the Company's liquidity and Capital Resources.

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

(U.S. dollars in thousands)

<table>
<thead>
<tr>
<th>Tier</th>
<th>Limits</th>
<th>MSM</th>
<th>ECR</th>
<th>Minimum Margin of Solvency</th>
<th>Enhanced Capital Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1</td>
<td>Min</td>
<td>80%</td>
<td>60%</td>
<td>8,183,677</td>
<td>8,183,677</td>
</tr>
<tr>
<td>Tier 2</td>
<td>Max</td>
<td>20%</td>
<td>40%</td>
<td>2,045,919</td>
<td>3,962,655</td>
</tr>
<tr>
<td>Tier 3</td>
<td>Max</td>
<td>15%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td>10,229,596</td>
<td>12,146,332</td>
</tr>
</tbody>
</table>

The Tier 1 capital comprises fully paid common shares, the contributed surplus or share premium thereon, and preference shares which have been grandfathered as Tier1 by the BMA until January 1, 2026. The Tier 2 capital consists of both senior and subordinated notes payable which have either been grandfathered as Tier 2 ancillary capital until January 1, 2026 or are approved as Tier 2 ancillary capital in their own right. In addition Tier 2 capital includes the difference between encumbered assets for policyholder obligations and policyholder obligations which have been deducted from Tier 1 capital.

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

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

The eligible capital that is subject to the transitional arrangements are described in section E.1.6.

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

The capital needed to meet the ECR is available and transferable.
E.1.6. Identification of ancillary capital instruments that have been approved by the Authority

The following capital instruments were approved by the BMA as eligible ancillary capital, by virtue of the powers vested pursuant to Section 6C of the Insurance Act 1978:

(U.S. dollars in thousands)

<table>
<thead>
<tr>
<th>Capital Instrument</th>
<th>Issuing Subsidiary</th>
<th>Expiry</th>
<th>Commitment Value</th>
<th>In Use/Outstanding</th>
<th>Eligibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.3% Senior Notes</td>
<td>XLIT</td>
<td>2018</td>
<td>$300,000</td>
<td>$299,358</td>
<td>Grandfathered as Tier 2 Ancillary Capital until January 1, 2026</td>
</tr>
<tr>
<td>5.75% Senior Notes</td>
<td>XLIT</td>
<td>2021</td>
<td>$400,000</td>
<td>$398,384</td>
<td>Grandfathered as Tier 2 Ancillary Capital until January 1, 2026</td>
</tr>
<tr>
<td>6.375% Senior Notes</td>
<td>XLIT</td>
<td>2024</td>
<td>$350,000</td>
<td>$349,248</td>
<td>Grandfathered as Tier 2 Ancillary Capital until January 1, 2026</td>
</tr>
<tr>
<td>6.25% Senior Notes</td>
<td>XLIT</td>
<td>2027</td>
<td>$325,000</td>
<td>$323,531</td>
<td>Grandfathered as Tier 2 Ancillary Capital until January 1, 2026</td>
</tr>
<tr>
<td>5.25% Senior Notes</td>
<td>XLIT</td>
<td>2043</td>
<td>$300,000</td>
<td>$296,560</td>
<td>Grandfathered as Tier 2 Ancillary Capital until January 1, 2026</td>
</tr>
<tr>
<td>3.25% Subordinated Notes</td>
<td>XLIT</td>
<td>2047</td>
<td>$597,050</td>
<td>$586,719</td>
<td>Tier 2 Ancillary Capital</td>
</tr>
<tr>
<td>4.45% Subordinated Notes</td>
<td>XLIT</td>
<td>2025</td>
<td>$500,000</td>
<td>$494,138</td>
<td>Tier 2 Ancillary Capital</td>
</tr>
<tr>
<td>5.5% Subordinated Notes</td>
<td>XLIT</td>
<td>2045</td>
<td>$500,000</td>
<td>$472,832</td>
<td>Tier 2 Ancillary Capital</td>
</tr>
</tbody>
</table>

$3,272,050 $3,220,770

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

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

The differences between net assets of the Company in the financial statements and the solvency valuation of the excess of the assets over liabilities is set out below. The adjustments are documented in Section D covering valuation of assets and liabilities.

(U.S. dollars in thousands)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>US GAAP Consolidated Total Shareholders' Equity</td>
<td>$11,461,320</td>
</tr>
<tr>
<td>Less: Goodwill &amp; Intangible assets</td>
<td>(1,565,751)</td>
</tr>
<tr>
<td>Plus: Adjustments for Technical provision and risk Margin under EBS rules</td>
<td>712,840</td>
</tr>
<tr>
<td>Less: Adjustments for DAC</td>
<td>(1,548,790)</td>
</tr>
<tr>
<td>Plus: Notes payable treated as Capital</td>
<td>3,220,770</td>
</tr>
<tr>
<td>Less: Other net adjustments</td>
<td>(134,057)</td>
</tr>
<tr>
<td>Statutory Consolidated Total Shareholders' Equity</td>
<td>$12,146,332</td>
</tr>
</tbody>
</table>
E.2. Regulatory Capital Requirements

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

The Company’s Minimum Margin of Solvency and Enhanced Capital Requirements as at December 31, 2017 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Margin of Solvency</td>
<td>5,785,274</td>
<td>210%</td>
</tr>
<tr>
<td>Enhanced Capital Requirement per the ICM</td>
<td>6,136,000</td>
<td>198%</td>
</tr>
</tbody>
</table>

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

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

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

Not Applicable

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

Not applicable

E.3. Approved Internal Capital Model

On September 12, 2017, the BMA approved the use of a full ICM to calculate the Company’s and its wholly owned subsidiary, XL Bermuda Ltd’s respective enhanced capital requirements (“ECR”) in substitution of the Bermuda Solvency Capital Requirement (“BSCR”) standard formula.

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

The purpose of the internal model is to assess the solvency of XL Group and its legal entities according to the regulatory framework in which they operate, to assess the solvency of XL Group according to our own internal view of risk, and to provide information to management to support decision making. The internal model provides management information at a suitable level of detail covering all lines of business and all relevant risk areas. The main uses of the model to produce management information are:

- Communication of risk: The internal model is used to inform and communicate the key drivers of risk to XL Group at a range of return periods. This includes the ability of the internal model to rank the relative importance of XL Group’s risks and those of its legal entities.
- Risk appetites: The internal model is used to monitor the modelled risk profile of XL Group and its legal entities against board approved risk appetite statements.
- Reinsurance purchase: The internal model is used in the assessment of actual and proposed placements of reinsurance, the assessment of the efficacy of reinsurance with respect to capital and overall enterprise volatility, the estimation of ceded loss ratios and other contract metrics, and the allocation of ceded premium and losses across lines of business.
- Performance measurement: The internal model is used in the assessment of target profit requirements for the lines of business of XL Group, and so supports actuarial pricing.
- Strategic planning: The internal model is used to inform the ongoing strategy of the Group and assess the capital implications of certain strategic proposals as they arise.
E.3.2. Where a partial internal model is used, a description of the integration with the BSCR Model

XL Group sets its regulatory capital using its internal model for all risk categories and their aggregation. A partial internal model is not used.

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

The internal model divides risk into five principal risk categories. These are underwriting risk, reserve risk, credit risk, market risk and operational risk. We provide a brief description of the methods used in the internal model for each of these risk categories below:

- **Underwriting Risk**: This risk category reflects the risk of the inherent uncertainties in the frequency and severity of insurance liabilities that XL Group incurs by underwriting new business. The internal model simulates deviations in premiums, commissions, losses and expenses from the business plan. The modelling of losses is the most material of these business plan elements. There are three main parts to the modelling of gross losses for underwriting risk. These are (i) attritional and large loss modelling; (ii) natural catastrophe modelling; and (iii) man-made catastrophe modelling. The modelling of the volatility of attritional and large losses is derived primarily from the volatility of historic loss experience suitably adjusted to be representative of our current underwriting portfolio. Attritional losses are modelled together whereas large losses are modelled separately through frequency-severity models for each line of business. The natural catastrophe losses are modelled separately by major peril-regions primarily using third party models. These models quantify losses to XL Group for many different potential natural catastrophe events based on the exposure to loss in the current portfolio of risks. The man-made catastrophe losses are modelled using a frequency-severity model. Our outwards reinsurance program is applied directly to gross losses produced in our modelling to calculate the net losses.

- **Reserve Risk**: This risk category reflects the risk of the inherent uncertainties in the frequency and severity of insurance liabilities that XL Group is exposed to through the on-going management of earned reserves. The parameterisation of reserve risk is mainly performed using bootstrapping techniques which consider the historic volatility of reserves and project that volatility forward to the ultimate settlement cost of the current earned reserves. Some smaller lines of business are benchmarked on larger ones where there is sufficient historic loss information to perform the modelling. Large reserving events such as the emergence of a significant amount of related latent claims are modelled separately using a frequency-severity modelling approach. Large incurred losses which may have a different risk profile to other reserves such as significant earned natural catastrophe events are also modelled separately. We retain a small amount of runoff life risk which is modelled as part of reserve risk taking into account volatility associated with mortality and longevity assumptions in the best estimate reserves.

- **Credit Risk**: This risk category reflects the risk of losses arising from the inability of a counterparty to fulfill its financial obligations, including performing them in a timely manner. Credit risk for outstanding positions with reinsurers, intermediaries and financial institutions are modelled by considering the likelihood of default for each significant counterparty over time until no exposure remains. The likelihood of default varies according to each counterparty’s credit rating. In our modelling, when underwriting or reserving experience is poor, the recoverable amounts due from our reinsurers increase meaning there is greater exposure to default and it is also more likely that many reinsurers will be downgraded or default at the same time.

- **Market Risk**: This risk category reflects the risk of losses resulting from adverse financial market movements such as values of investments, interest rates or exchange rates. We use a third party model to project the state of the macroeconomic environment in future years (interest rates, inflation, exchange rates, spreads and other variables) and apply that future state to assess the change in the value of the investment portfolio over a one year period. The projected macroeconomic environment is also used to assess volatility in the discount benefit for liabilities and volatility due to changes in exchange rates.

- **Operational Risk**: This risk category reflects the financial loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is quantified through a frequency-severity model. We use internally derived scenarios to calibrate the volatility of the severity of loss events.
The internal model considers potential economic profits and losses incurred over the next 12 month period. The modelling descriptions provided above for underwriting risk, reserve risk, credit risk and operational risk set out our approach for quantifying the volatility in the ultimate financial impact of these risks once all liabilities are settled. We apply factors to reduce the volatility of the ultimate cost of losses to the volatility of the estimated ultimate cost of losses in 12 months’ time to meet this specification.

These five principal risk categories are aggregated using the approach set out in E.3.4.

**E.3.4. Description of aggregation methodologies and diversification effects**

The internal model uses several different aggregation approaches across the main risk categories to take into account the nature of the interaction between the risks. These include driver based approaches such as the common impact of extreme inflation across multiple risk categories, the application of correlations between different lines of business and the application of dependencies that are particularly strong in the extremes for certain related risks (for example underwriting losses caused by macroeconomic stress or large terrorism events coinciding with losses on our investment portfolio; poor underwriting or reserving loss experience coinciding with a greater likelihood that several reinsurer default simultaneously; or poor P&C insurance experience revealing significant operational issues causing financial losses). Our aggregation methodologies allow us to capture important interactions between related risks while allowing for diversification effects where appropriate.

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

The core structure of the internal model differs from the BSCR in that the former is a simulation model and the latter is a factor based model. That aside, the BSCR divides risk into five principal risk categories. These are P&C insurance risk, life insurance risk, credit risk, market risk and operational risk. This is a slightly different division of risk categories to that used in the internal model as set out in E.3.3. We provide a brief description of the main differences in methods and assumptions between the internal model and the BSCR organized by the BSCR division of risk categories below:

- **P&C Insurance Risk**
  - Underwriting Risk (excluding Natural Catastrophes): The BSCR calculation applies charge factors to a net premium volume measure at a BMA line of business level and applies a diversification credit between the resulting capital charges for the BMA lines of business. This leads to the following main differences:
    - The specific characteristics of our inwards business are not allowed for in the BSCR calculation beyond the different charge factors by BMA line of business
    - The specific characteristics of our outwards reinsurance are not allowed for in the BSCR whereas we model outwards reinsurance explicitly in the internal model
    - Certain man-made catastrophe events are modelled explicitly within the internal model.
  - Natural Catastrophes: Both the internal model and the BSCR calculations rely on gross output from our third party models netted down for our outwards reinsurance program. Other than differences in the categorisation of certain items, the two approaches are largely in line.
  - Reserve Risk: The BSCR calculation uses charge factors applied to the claims provision amounts by BMA line of business and then applies a concentration adjustment to aggregate over the BMA lines of business to total reserve risk. The internal model calculation uses a more detailed analysis typically based on our historic loss experience to produce capital amounts by our own modelling lines of business which are suitable for the nature and size of reserves.

- **Life Insurance Risk**: We retain a small amount of runoff life risk on our balance sheet. The BSCR calculation uses charge factors on reserves and premiums. In the internal model we perform a more detailed calculation taking into account volatility associated with mortality and longevity assumptions in the best estimate reserves.
• Credit Risk: Credit risk in the BSCR considers the reinsurance recoverable on earned reserves on the opening balance sheet plus the recoverable due under large catastrophe losses. The part of credit risk associated with large catastrophe losses is recorded as part of catastrophe risk in the BSCR calculation. Credit risk in the internal model considers the recoverable due on earned reserves on the opening balance sheet following significant reserve deteriorations, the recoverable due from underwriting risk modelling (including natural catastrophes) following poor loss experience, the premiums receivable on the opening balance sheet and the balances held with financial institutions on the opening balance sheet.

• Market Risk: The BSCR uses a series of charge factors against different asset classes to quantify market risk and charge factors against the opening balance sheet surplus of assets over liabilities to calculate currency risk. The internal model calculates the impact that projections of future macroeconomic conditions have on our investment portfolio, our discounting of liabilities and surplus of assets and liabilities by currency. This takes into account the particular characteristics of our investments and economic balance sheet. The approaches taken to quantify risk in the BSCR and the internal model are therefore quite different. As well as the greater modelling precision in the internal model another noteworthy difference is that the internal model recognises the increased impact that interest rate and exchange rate movements can have in stressed scenarios where liabilities have deteriorated from their opening positions whereas the BSCR applies charge factors to the opening balance sheet positions only.

• Operational Risk: Operational risk for the BSCR is calculated as a percentage of the pre-operational risk diversified total capital charge. It is treated as a capital add-on with no diversification credit allowed with other risks. The internal model uses a frequency-severity based approach which is based on internally derived operational risk scenarios and allows for diversification with other risk types.

Aggregation: The aggregation methodologies are very different between the models. The BMA model aggregates the main risk categories using the square root of the sum of the squares of the capital charges with an allowance for credit risk to be more strongly correlated with reserve risk. The internal model uses several different aggregation approaches across the main risk categories to take into account the nature of the interaction between the risks. These include driver based approaches such as the common impact of extreme inflation across multiple risk categories, the application of correlations between different lines of business across risk categories and the application of dependencies that are particular strong in the extremes for certain related risks (for example underwriting losses caused by macroeconomic stress or large terrorism events coinciding with losses on our investment portfolio; poor underwriting or reserving loss experience coinciding with a greater likelihood that several reinsurers default simultaneously; or poor underwriting or reserving loss experience revealing significant operational issues causing financial losses).

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

The internal model uses data to assess our exposure to different risks and to quantify the potential impact to our P&L that those risks represent. Below is a brief description of how data is used for each of our five principal risk categories:

• Underwriting Risk: We use our historic loss information to quantify attritional and large loss volatility by modelling line of business. Where appropriate we make adjustments to the historic loss information to ensure that it is representative of the risk profile of our current underwriting portfolio and so suitable to use. We use policy data such as retentions, shares and limits in our exposure based analysis to quantify natural catastrophe and man-made catastrophe loss volatility.

• Reserve Risk: We use our historic loss information to quantify volatility associated with our earned reserves by modelling line of business. Where appropriate we make adjustments to the historic loss information to ensure that it is representative of the risk profile of our booked reserves and so suitable to use.

• Credit Risk: We use outstanding reinsurer, intermediary and financial institution balances as the exposure to risk. Information from external rating agencies is used to assess the risk presented by each counterparty for these balances. This external information is used widely across the insurance industry and allows us to better quantify and differentiate between the risks of different counterparties. We consider it to be suitable for use to quantify credit risk.
Market Risk: We use a third party model to quantify market risk. This model uses historic experience of macroeconomic variables such as interest rates, spreads, inflation and exchange rates to calibrate future projections of these macroeconomic variables for use in the model. We use a suitable timeframe of this historic data to ensure that it is representative of potential future macroeconomic conditions. We use data about our investment portfolio (such as maturity dates, coupon payments and other investment characteristics) and combine this with the projected macroeconomic conditions to quantify the risk presented by our investment portfolio.

Operational Risk: We use externally produced datasets of industry-wide operational losses to aid the quantification of our own potential for operational risk losses. We filter these external datasets to ensure that they are representative of our risk profile and so suitable for use to quantify the risk.

E.5. Other material information

For the year ended December 31, 2017, there is no other material information regarding capital management required to be disclosed for purposes of this Financial Condition Report.

F. Subsequent Events

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

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

XL issues press releases and files periodic reports with the U.S. Securities and Exchange Commission on Forms 8-K, 10-Q and 10-K which disclose information about XL Group from time to time, including financial and other information. These press releases are available on XL’s website: xlgroup.com

Appendix 1: XL Group Ltd Structure Chart