

XL GROUP LTD  
Form 10-Q  
August 08, 2016  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-10804

XL GROUP LTD

(Exact name of registrant as specified in its charter)

Bermuda 98-0665416  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

O'Hara House, One Bermudiana Road, Hamilton HM 08, Bermuda

(Address of principal executive offices and zip code)

(441) 292-8515

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer" "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of August 3, 2016, there were 274,972,458 outstanding Common Shares, \$0.01 par value per share, of the registrant.

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## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## XL GROUP PLC

## UNAUDITED CONSOLIDATED BALANCE SHEETS

(U.S. dollars in thousands, except share data)	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
Investments:		
Fixed maturities, at fair value (amortized cost: 2016 - \$30,389,600; 2015 - \$31,517,654)	\$31,858,724	\$32,257,589
Equity securities, at fair value (cost: 2016 - \$955,231; 2015 - \$834,079)	1,039,793	878,919
Short-term investments, at fair value (amortized cost: 2016 - \$446,469; 2015 - \$618,851)	444,301	617,390
Total investments available for sale	\$33,342,818	\$33,753,898
Fixed maturities, at fair value (amortized cost: 2016 - \$1,385,588; 2015 - \$1,263,609)	1,478,407	1,235,699
Short-term investments, at fair value (amortized cost: 2016 - \$18,495; 2015 - \$60,176)	18,499	60,330
Total investments, trading	\$1,496,906	\$1,296,029
Investments in affiliates	1,968,801	1,708,899
Other investments	1,297,704	1,433,057
Total investments	\$38,106,229	\$38,191,883
Cash and cash equivalents	3,316,749	3,256,236
Restricted cash	181,858	154,992
Accrued investment income	289,911	312,667
Deferred acquisition costs and value of business acquired	1,050,653	890,568
Ceded unearned premiums	2,174,219	1,821,793
Premiums receivable	6,469,371	4,712,493
Reinsurance balances receivable	563,673	418,666
Unpaid losses and loss expenses recoverable	5,426,773	5,262,706
Receivable from investments sold	222,558	231,158
Goodwill and other intangible assets	2,217,973	2,210,266
Deferred tax asset	224,786	282,311
Other assets	953,487	937,199
Total assets	\$61,198,240	\$58,682,938
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Unpaid losses and loss expenses	\$26,020,564	\$25,439,744
Deposit liabilities	1,178,113	1,168,376
Future policy benefit reserves	3,798,278	4,163,500
Funds withheld on GreyCastle life retrocession arrangements (net of future policy benefit reserves recoverable: 2016 - \$3,366,929; 2015 - \$3,719,131)	1,145,314	914,629
Unearned premiums	8,274,300	7,043,358
Notes payable and debt	2,646,324	2,644,970
Reinsurance balances payable	2,911,974	2,117,727
Payable for investments purchased	175,153	130,060
Deferred tax liability	107,778	120,651
Other liabilities	1,276,510	1,285,460
Total liabilities	\$47,534,308	\$45,028,475
Commitments and Contingencies		
Shareholders' Equity:		

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Ordinary shares, 999,990,000 authorized, par value \$0.01; issued and outstanding (2016 - 276,732,659; 2015 - 294,745,045)	\$2,768	\$2,947
Additional paid in capital	8,341,882	8,910,167
Accumulated other comprehensive income	1,408,587	686,616
Retained earnings	1,931,951	2,077,349
Shareholders' equity attributable to XL Group plc	\$11,685,188	\$11,677,079
Non-controlling interest in equity of consolidated subsidiaries	1,978,744	1,977,384
Total shareholders' equity	\$13,663,932	\$13,654,463
Total liabilities and shareholders' equity	\$61,198,240	\$58,682,938
See accompanying Notes to Unaudited Consolidated Financial Statements		

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## XL GROUP PLC

## UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(U.S. dollars in thousands, except per share data)	2016	2015	2016	2015
<b>Revenues:</b>				
Net premiums earned	\$2,532,212	\$2,082,053	\$4,886,822	\$3,416,053
<b>Net investment income:</b>				
Net investment income - excluding Life Funds Withheld Assets	176,242	176,340	340,568	334,434
Net investment income - Life Funds Withheld Assets	39,146	46,864	80,706	97,283
Total net investment income	\$215,388	\$223,204	\$421,274	\$431,717
<b>Net realized gains (losses) on investments, and net unrealized gains (losses) on investments, trading ("Trading") - Life Funds Withheld Assets:</b>				
Net realized gains (losses) on investments sold - excluding Life Funds Withheld Assets	51,990	20,939	63,154	36,117
Other-than-temporary impairments ("OTTI") on investments - excluding Life Funds Withheld Assets	(32,778)	(16,520)	(52,360)	(27,035)
OTTI on investments transferred to (from) other comprehensive income - excluding Life Funds Withheld Assets	256	(68)	258	(129)
Net realized gains (losses) on investments sold - Life Funds Withheld Assets	30,114	68,037	64,530	120,775
OTTI on investments - Life Funds Withheld Assets	(252)	(2,878)	(2,598)	(8,087)
Net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets	55,287	(19,543)	124,383	(18,783)
Total net realized gains (losses) on investments, and net unrealized gains (losses) on investments, trading - Life Funds Withheld Assets	\$104,617	\$49,967	\$197,367	\$102,858
Net realized and unrealized gains (losses) on derivative instruments	906	48,509	(2,716)	65,030
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	(229,742)	239,174	(465,822)	9,807
Income (loss) from investment fund affiliates	13,179	31,377	8,600	66,706
Fee income and other	10,862	11,012	19,124	15,740
Total revenues	\$2,647,422	\$2,685,296	\$5,064,649	\$4,107,911
<b>Expenses:</b>				
Net losses and loss expenses incurred	\$1,632,386	\$1,151,195	\$3,014,871	\$1,921,022
Claims and policy benefits	5,482	22,081	10,419	41,468
Acquisition costs	420,520	341,617	823,787	495,313
Operating expenses	522,521	507,354	1,037,902	833,010
Foreign exchange (gains) losses	(19,100)	10,374	(52,919)	37,764
Interest expense	55,738	49,667	108,041	101,105
Total expenses	\$2,617,547	\$2,082,288	\$4,942,101	\$3,429,682
Income (loss) before income tax and income (loss) from operating affiliates	\$29,875	\$603,008	\$122,548	\$678,229
Income (loss) from operating affiliates	21,418	9,462	34,068	32,130
Gain on sale of operating affiliate	—	340,407	—	340,407
Provision (benefit) for income tax	2,467	32,959	24,762	57,177

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Net income (loss)	\$48,826	\$919,918	\$131,854	\$993,589
Non-controlling interests	5,044	4,879	66,187	42,269
Net income (loss) attributable to ordinary shareholders	\$43,782	\$915,039	\$65,667	\$951,320
Weighted average ordinary shares and ordinary share equivalents outstanding, in thousands – basic	281,793	289,420	286,881	272,665
Weighted average ordinary shares and ordinary share equivalents outstanding, in thousands – diluted	285,082	293,983	290,929	277,473
Earnings (loss) per ordinary share and ordinary share equivalent – basic	\$0.16	\$3.16	\$0.23	\$3.49
Earnings (loss) per ordinary share and ordinary share equivalent – diluted	\$0.15	\$3.11	\$0.23	\$3.43

See accompanying Notes to Unaudited Consolidated Financial Statements

## XL GROUP PLC

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(U.S. dollars in thousands)	2016	2015	2016	2015
Net income (loss) attributable to ordinary shareholders	\$43,782	\$915,039	\$65,667	\$951,320
Change in net unrealized gains (losses) on investments - excluding Life Funds Withheld Assets, net of tax	191,649	(318,935 )	555,532	(258,590 )
Change in adjustments related to future policy benefit reserves, net of tax	8,727	26,328	25,762	86,684
Change in net unrealized gains (losses) on investments - Life Funds Withheld Assets, net of tax	77,248	(321,046 )	129,238	(283,931 )
Change in net unrealized gains (losses) on affiliate and other investments, net of tax	(28,841 )	18,822	(38,548 )	34,687
Change in OTTI losses recognized in other comprehensive income, net of tax	1,852	1,575	4,119	11,433
Change in underfunded pension liability, net of tax	100	(1,329 )	(949 )	(354 )
Change in value of cash flow hedge	(48 )	12	(87 )	107
Foreign currency translation adjustments, net of tax	63,343	(34,423 )	46,904	1,680
Comprehensive income (loss)	\$357,812	\$286,043	\$787,638	\$543,036
See accompanying Notes to Unaudited Consolidated Financial Statements				

XL GROUP PLC  
UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(U.S. dollars in thousands)	Six Months Ended June 30,	
	2016	2015
<b>Ordinary Shares:</b>		
Balance - beginning of year	\$2,947	\$2,552
Issuance of ordinary shares	16	515
Buybacks of ordinary shares	(196	) (30
Exercise of stock options	1	2
Balance - end of period	\$2,768	\$3,039
<b>Additional Paid in Capital:</b>		
Balance - beginning of year	\$8,910,167	\$7,359,102
Issuance of ordinary shares	15	1,851,705
Buybacks of ordinary shares	(591,757	) (85,796
Exercise of stock options	1,725	4,826
Share-based compensation	21,732	24,031
Balance - end of period	\$8,341,882	\$9,153,868
<b>Accumulated Other Comprehensive Income (Loss):</b>		
Balance - beginning of year	\$686,616	\$1,484,458
Change in net unrealized gains (losses) on investments - excluding Life Funds Withheld Assets, net of tax	555,532	(258,590
Change in adjustments related to future policy benefit reserves, net of tax	25,762	86,684
Change in net unrealized gains (losses) on investments - Life Funds Withheld Assets, net of tax	129,238	(283,931
Change in net unrealized gains (losses) on affiliate and other investments, net of tax	(38,548	) 34,687
Change in OTTI losses recognized in other comprehensive income, net of tax	4,119	11,433
Change in underfunded pension liability, net of tax	(949	) (354
Change in value of cash flow hedge	(87	) 107
Foreign currency translation adjustments, net of tax	46,904	1,680
Balance - end of period	\$1,408,587	\$1,076,174
<b>Retained Earnings (Deficit):</b>		
Balance - beginning of year	\$2,077,349	\$1,187,639
Net income (loss) attributable to ordinary shareholders	65,667	951,320
Dividends on ordinary shares	(115,060	) (91,133
Buybacks of ordinary shares	(92,433	) (26,559
Share-based compensation	(3,572	) (7,050
Balance - end of period	\$1,931,951	\$2,014,217
<b>Non-controlling Interest in Equity of Consolidated Subsidiaries:</b>		
Balance - beginning of year	\$1,977,384	\$1,402,015
Non-controlling interests - contributions	1,129	4,659
Non-controlling interests - distributions	(5,180	) (15,026
Non-controlling interests - acquired	—	562,285
Non-controlling interests	5,436	3,874
Non-controlling interest share in change in accumulated other comprehensive income (loss)	(25	) —
Balance - end of period	\$1,978,744	\$1,957,807
<b>Total Shareholders' Equity</b>	<b>\$13,663,932</b>	<b>\$14,205,105</b>
See accompanying Notes to Unaudited Consolidated Financial Statements		





XL GROUP PLC  
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	June 30,	
	2016	2015
(U.S. dollars in thousands)		
Cash flows provided by (used in) operating activities:		
Net income (loss)	\$ 131,854	\$ 993,589
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Total net realized (gains) losses on investments and net unrealized (gains) losses on investments, Trading - Life Funds Withheld Assets	(197,367 )	(102,858 )
Net realized and unrealized (gains) losses on derivative instruments	2,716	(65,030 )
Net realized and unrealized (gains) losses on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	465,822	(9,807 )
Amortization of premiums (discounts) on fixed maturities	90,876	77,334
(Income) loss from investment and operating affiliates	(7,186 )	(78,257 )
Gain on sale of ARX Holding Corp.	—	(340,407 )
Share-based compensation	43,226	39,641
Depreciation and amortization	58,643	29,349
Accretion of deposit liabilities	24,816	20,887
Changes in:		
Unpaid losses and loss expenses	651,236	(166,007 )
Future policy benefit reserves	(118,130 )	(122,842 )
Funds withheld on GreyCastle life retrocession arrangements, net	(133,839 )	(156,411 )
Unearned premiums	1,273,539	868,244
Premiums receivable	(1,835,783 )	(959,771 )
Unpaid losses and loss expenses recoverable	(189,376 )	(255,432 )
Ceded unearned premiums	(376,466 )	(343,391 )
Reinsurance balances receivable	(149,498 )	56,825
Deferred acquisition costs and value of business acquired	(149,218 )	(105,402 )
Reinsurance balances payable	798,492	565,221
Deferred tax asset - net	(24,124 )	30,284
Derivatives	50,682	109,745
Other assets	(118,265 )	(63,360 )
Other liabilities	(65,890 )	(59,258 )
Other	(59,506 )	57,618
Total adjustments	\$ 35,400	\$ (973,085 )
Net cash provided by (used in) operating activities	\$ 167,254	\$ 20,504
Cash flows provided by (used in) investing activities:		
Proceeds from sale of fixed maturities and short-term investments	\$ 7,449,955	\$ 6,352,126
Proceeds from redemption of fixed maturities and short-term investments	2,088,317	1,938,622
Proceeds from sale of equity securities	114,958	271,367
Purchases of fixed maturities and short-term investments	(8,356,108 )	(8,042,196 )
Purchases of equity securities	(255,442 )	(239,535 )
Proceeds from sale of affiliates	153,928	86,156
Purchases of affiliates	(408,886 )	(33,298 )
Purchase of Catlin Group Limited, net of cash acquired	—	(1,020,015 )
Purchase of Allied International Holdings, Inc., net of cash acquired	(69,745 )	—
Proceeds from sale of ARX Holding Corp.	—	560,552
Change in restricted cash	(26,866 )	(135,638 )

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Other	108,095	(87,516 )
Net cash provided by (used in) investing activities	\$798,206	\$(349,375 )
Cash flows provided by (used in) financing activities:		
Proceeds from issuance of ordinary shares and exercise of stock options	\$1,727	\$4,827
Buybacks of ordinary shares	(684,386 )	(112,385 )
Dividends paid on ordinary shares	(113,731 )	(89,053 )
Distributions to non-controlling interests	(65,682 )	(53,456 )
Contributions from non-controlling interests	1,130	4,658
Proceeds from the issuance of debt	—	980,600
Repayment of debt	(8,248 )	—
Deposit liabilities	(14,807 )	(49,388 )
Net cash provided by (used in) financing activities	\$(883,997 )	\$685,803
Effects of exchange rate changes on foreign currency cash	(20,950 )	(37,905 )
Increase (decrease) in cash and cash equivalents	\$60,513	\$319,027
Cash and cash equivalents - beginning of period	3,256,236	2,521,814
Cash and cash equivalents - end of period	\$3,316,749	\$2,840,841
See accompanying Notes to Unaudited Consolidated Financial Statements		

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation and Consolidation

On July 25, 2016, XL Group plc, an Irish public limited company ("XL-Ireland"), and XL Group Ltd, a Bermuda exempted company ("XL-Bermuda"), completed a scheme of arrangement under Irish law (the "Scheme of Arrangement") that effected a transaction (the "Redomestication") that resulted in the shareholders of XL-Ireland becoming shareholders of XL-Bermuda and XL-Ireland becoming a subsidiary of XL-Bermuda. In accordance with the terms of the Scheme of Arrangement, the following steps occurred effectively simultaneously at the effective time of the Redomestication: (i) all of the existing XL-Ireland ordinary shares, par value \$0.01 per share (the "XL-Ireland shares") (other than XL-Ireland shares held by XL-Bermuda) were canceled; (ii) the reserves created on cancellation of the XL-Ireland shares were used to issue XL-Ireland shares to XL-Bermuda; and (iii) in return for such issuance of XL-Ireland shares to XL-Bermuda, XL-Bermuda issued common shares, par value \$0.01 per share (the "XL-Bermuda shares"). The XL-Bermuda shares issued in connection with the redomestication were issued in reliance upon an exemption from registration under the U.S. Securities Act of 1933, as amended (the "Securities Act") provided under Section 3(a)(10) of the Securities Act. Upon the Redomestication, XL-Bermuda became the successor issuer to XL-Ireland and succeeded XL-Ireland's obligation to file reports, proxy statements and other information required of domestic registrants by the Securities Exchange Act of 1934, as amended with the U.S. Securities and Exchange Commission (the "SEC"). As the successor issuer, the XL-Bermuda shares were deemed to be registered under Section 12(b) of the Exchange Act. Further, XL-Bermuda is subject to the applicable listing standards of the New York Stock Exchange ("NYSE"), and will report its financial results in U.S. Dollars and under U.S. generally accepted accounting principles, in addition to any reporting requirements under Bermuda law. XL-Bermuda's shares continue in place of the XL-Ireland shares to trade on the NYSE under the ticker symbol "XL".

XL-Ireland expects that the financial condition, results of operations, including global effective tax rate, and cash flows of XL-Bermuda will not be materially different from that of XL-Ireland prior to the Redomestication. In connection with the Redomestication, on August 3, 2016, XL-Ireland distributed the ordinary shares of XLIT Ltd., an exempted company incorporated under the laws of the Cayman Islands ("XL-Cayman"), to XL-Bermuda (the "Distribution"), which was recorded on the share register of XL-Cayman on August 4, 2016. As a result of the Distribution, XL-Cayman is now a direct, wholly-owned subsidiary of XL-Bermuda. It is anticipated that XL-Ireland will be liquidated (via a solvent members voluntary liquidation which was initiated on August 2, 2016) at the end of 2016 or the beginning of 2017.

The financial statements included in this Form 10-Q are for the quarter ended June 30, 2016, a period that ended prior to the Redomestication, and therefore include financial statements for XL-Ireland. Prior to July 25, 2016, unless the context otherwise indicates, references herein to the "Company" are to XL-Ireland and its consolidated subsidiaries. On and subsequent to July 25, 2016, unless the context otherwise indicates, references to the "Company" are to XL-Bermuda and its consolidated subsidiaries.

These unaudited consolidated financial statements include the accounts of the Company and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by GAAP for complete financial statements. In addition, the year-end balance sheet data was derived from audited financial statements but do not include all disclosures required by GAAP. In the opinion of management, these unaudited financial statements reflect all adjustments considered necessary for a fair statement of financial position and results of operations at the end of and for the periods presented. The results of operations for any interim period are not necessarily indicative of the results for a full year. All inter-company accounts and transactions have been eliminated. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure about contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates. For further information, see Item 8, Note 2(a), "Significant Accounting Policies - Basis of Preparation and Consolidation," to the Consolidated Financial Statements included in the Company's Annual Report on Form

10-K for the year ended December 31, 2015.

On May 1, 2015, the Company completed its acquisition of Catlin Group Limited and its consolidated subsidiaries ("Catlin"). Catlin, through its wholly-owned subsidiaries, provided property, casualty and specialty insurance and reinsurance coverage on a worldwide basis. The Company's consolidated results of operations include those of Catlin from May 1, 2015. For further information, see Item 8, Note 3(c), "Acquisitions and Disposals - Catlin Acquisition," to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

In May 2014, the Company ceded the majority of its life reinsurance business to GreyCastle Life Reinsurance ("GCLR") via 100% quota share reinsurance (the "GreyCastle Life Retro Arrangements"). Under the terms of the transaction, the Company continues to own, on a funds withheld basis, assets supporting the GreyCastle Life Retro Arrangements consisting of cash, fixed maturity securities and accrued interest (the "Life Funds Withheld Assets"). The Life Funds Withheld Assets are

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## XL GROUP PLC

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

managed pursuant to agreed investment guidelines that meet the contractual commitments of the XL ceding companies and applicable laws and regulations. All of the investment results associated with the Life Funds Withheld Assets ultimately accrue to GCLR. Because the Company no longer shares in the risks and rewards of the underlying performance of the supporting invested assets, disclosures within the financial statement notes included herein separate the Life Funds Withheld Assets from the rest of the Company's investments. For further information, see Item 8, Note 3(e), "Acquisitions and Disposals - Sale of Life Reinsurance Subsidiary," to the Consolidated Financial Statements included the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

To facilitate period-to-period comparisons, certain reclassifications have been made to prior period consolidated financial statement amounts to conform to current period presentation.

## 2. Significant Accounting Policies

### (a) Recent Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board ("FASB") issued an accounting standards update concerning the accounting for financial instruments. The guidance retains the basic existing framework for accounting for financial instruments under GAAP, while achieving limited convergence with IFRS in this area. The guidance: (1) requires equity investments (except consolidated entities and those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income, although equity instruments without a readily determinable fair value may be measured at cost less impairment with an adjustment for observable price changes; (2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (3) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for non-public business entities; (4) eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost on the balance sheet; (5) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (6) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial statements; (7) requires separate presentation of financial assets and financial liabilities by measurement category and form of asset in the financial statements; and (8) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entity's other deferred tax assets. The guidance will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted only for the amendment relating to presentation of the change in the fair value of a liability resulting from a change in instrument-specific credit risk and should be applied as of the beginning of the fiscal year of adoption. All of the amendments from this update should be applied by means of a cumulative effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, except the amendments related to impairment of equity securities without readily determinable fair values. The Company is currently evaluating the impact of this guidance, but expects that it will have an effect on results of operations as mark to market movements will prospectively impact net income. The Company does not expect this new guidance to have a material impact on the Company's financial condition or cash flows.

In February 2016, the FASB issued an accounting standards update concerning the accounting for leases. The most significant change to existing GAAP created by this standard will be the lessee recognition of lease assets and lease liabilities for those leases classified as operating. The core principle of this guidance stipulates that a lessee should recognize in the statement of financial position, initially measured at the present value of the lease payments, both a liability for contractual payments due under the lease, and an asset representing its right to use the underlying leased asset for the lease term ("right-of-use asset"). For financing leases, interest on the lease liability should be recognized separately from the amortization of the right-of-use asset in the statement of comprehensive income. Additionally, as regards the presentation of financing lease activities within the statement of cash flows, repayments of the principal portion of the lease liability should be classified within financing activities, while payments of interest on the lease liability should be classified within operating activities. For operating leases, a single net lease cost should be

recognized over the lease term, generally on a straight-line basis, and all cash payments related to the lease should be classified within operating activities in the statement of cash flows. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities, and therefore recognize lease expense for such leases on a straight-line basis over the lease term. The guidance will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. An entity that elects to apply the practical expedients will substantively continue to account for leases that commence before the effective date in accordance with existing GAAP, except that a right-

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of-use asset and a lease liability must be recorded for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were previously tracked and disclosed. The Company is currently evaluating the impact of this guidance, but expects that it will have an effect on the Company's financial condition as new assets and liabilities related to operating leases are likely to be recorded as a result of adoption. The Company does not expect this new guidance to have a material impact on the Company's results of operations or cash flows.

In March 2016, the FASB issued an accounting standards update concerning the accounting for equity method investments. The amendments in this update require an investor to increase its current basis in an investment by the cost of the acquisition of an additional interest in the investee when the investment qualifies for use of the equity method as a result of such increase in the level of ownership interest or degree of influence and adopt the equity method of accounting as of that date. Additionally, if the investment was previously accounted for as an available-for-sale security, an entity also shall immediately recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income ("AOCI") as of that date. Thus, this new treatment is eliminating existing GAAP rules requiring retroactive adjustment of an entity's investments, results of operations and retained earnings when an existing investment qualifies for the equity method of accounting. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, and should be applied prospectively upon their effective date. Early adoption is permitted. The Company is currently evaluating the impact of this guidance, but does not expect this new guidance to have a material impact on the Company's financial condition, results of operations or cash flows.

In March 2016 as part of its simplification initiative, the FASB issued an accounting standards update concerning the accounting for several aspects of employee share-based payment awards including: income tax consequences, classification of awards as either equity or liabilities, classification of items in the statement of cash flows, and certain expedients that entities can now elect regarding estimates and assumptions in this area. Regarding the accounting for income taxes, all excess tax benefits and tax deficiencies, including tax benefits of dividends on share-based payment awards, should be recognized as income tax expense or benefit (regardless of whether the benefit reduces taxes payable in the current period) in the income statement, as opposed to additional paid-in capital as current GAAP prescribes. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. Regarding the classification of awards, the update changes the threshold to qualify for equity classification from the employer's minimum statutory withholding requirements to the maximum statutory tax rates in the applicable jurisdictions. Regarding the classification of cash flows, excess tax benefits should be classified along with other income tax cash flows as an operating activity, while cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity. As regards new expedients which can be elected related to estimates and assumptions in this area of accounting, the only one allowable for public business entities is that they may now make an entity-wide accounting policy election to either estimate the number of share-based payment awards that are expected to vest (which is current GAAP) or account for forfeitures as they occur. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 with early adoption permitted so long as all the amendments in the update are adopted in the same period. The amendments within the guidance related to the recognition of excess tax benefits and tax deficiencies in the income statement as opposed to in paid-in capital should be applied prospectively. The amendments related to the statement of cash flows presentation of excess tax benefits may be adopted either prospectively or retrospectively, while the amendments related to the presentation of employee taxes paid must be applied retrospectively. The remaining amendments - relating to the timing of when excess tax benefits are recognized, the change in the threshold for equity versus liability classification of certain awards, and the allowable policy election regarding forfeitures - should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. The Company is currently evaluating the impact of this guidance, but expects it will have an impact on the Company's financial position, results of operations and cash flows upon adoption.



In June 2016 the FASB issued an accounting standards update concerning the measurement of credit losses on financial instruments. The amendments in this update affect the measurement of various financial assets, including loans, debt securities, trade receivables, reinsurance receivables and net investments in leases. For assets measured at amortized cost the amendments in this update require presentation at the net amount expected to be collected. This results in an allowance for all expected credit losses over an asset's entire life, with no threshold for recognition. This allowance should be maintained in a valuation account that is deducted from the amortized cost of the asset to result in the net amount for presentation purposes. Credit loss allowances for newly created financial assets and subsequent movements in these allowances will be recognized in the income statement, except for the initial credit losses on assets that are purchased in an already credit-impaired state, which will be added to the purchase price of such assets. For available-for-sale debt securities, credit losses should also be recorded through an allowance. The allowance for credit losses is restricted to the difference between the fair value and amortized cost of the relevant asset. The guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within those fiscal years beginning after December 15, 2018. The updates should be adopted in a modified-retrospective approach, by means of a cumulative-effect

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adjustment to retained earnings at the beginning of the first reporting period in which the guidance is effective. For securities with an existing other-than-temporary impairment or securities previously acquired with deteriorated quality the relevant provisions should be adopted prospectively. The Company is currently evaluating the impact of this guidance and expects it will have an impact on the Company's financial position and results of operations, but not the Company's cash flows.

3. Acquisitions and Disposals

(a) Allied Acquisition

Overview

On February 1, 2016, the Company's indirect, wholly-owned subsidiary, XL Reinsurance America Inc. ("XLRA"), completed the acquisition ("Allied Acquisition") of Allied International Holdings, Inc. ("Allied"). Allied is the holding company of Allied Specialty Insurance, Inc. and T.H.E. Insurance Company, a leading insurer of the outdoor entertainment industry in the U.S.

Acquisition Consideration

The Company made an initial payment of \$75.7 million to acquire Allied. Additional contingent consideration then will be paid based on production and underwriting profitability over a three year period subsequent to the acquisition date. The target payments of contingent consideration range from \$7.5 million to \$30.0 million. The Company currently believes the fair market value of these payments to be \$15.0 million, resulting in total consideration of \$90.7 million recorded for the acquisition.

Fair Value of Net Assets Acquired and Liabilities Assumed

The purchase price was allocated to the acquired assets and assumed liabilities of Allied based on estimated fair values on the acquisition date. The fair value of the net assets acquired and liabilities assumed was \$76.7 million, which includes indefinite-lived intangible assets of \$8.0 million and other intangible assets of \$6.0 million, which will be amortized over their estimated useful lives. Other adjustments to the historical carrying value of acquired assets and liabilities included: estimating the fair value of net loss and loss expense reserves at the present value of expected net loss and loss adjustment expense payments plus a risk premium, estimating the value of the business acquired at the present value of expected underwriting profits with net unearned premiums plus a risk margin less policy servicing costs, and estimating the fair value of real estate assets at appraised market values. In conjunction with the transaction, the Company recognized goodwill of \$14.1 million, which is primarily attributable to the acquiree's underwriting expertise in a niche specialty risk business. The Company has allocated all of the \$14.1 million of goodwill to its Insurance segment. See Note 8, "Goodwill and Other Intangible Assets," for further information.

The allocation of the purchase price is based on information that was available to management at the time the consolidated financial statements were prepared. The allocation may change as additional information becomes available within the measurement period, which cannot exceed 12 months from the acquisition date. The fair value recorded for these items may be subject to adjustments, which may impact the individual amounts recorded for assets acquired and liabilities assumed, as well as the residual goodwill.

(b) New Energy Risk

On July 24, 2015, the Company purchased an additional 63.63% interest in New Energy Risk Inc. ("New Energy"), a provider of insurance risk management solutions within the alternative energy sector. A substantial portion of the additional shares were purchased directly from the family trusts of a Company employee who is responsible for managing the business generated by New Energy. Prior to the additional purchase, the Company held a 31.16% ownership interest in New Energy, which was accounted for as an equity method investment. The subsequent purchase raised the Company's ownership stake to 94.79%, which is deemed a controlling financial interest, and hence, the Company now consolidates New Energy. Subsequent to the additional purchase, the family trusts of the employee contributed their remaining 5.21% ownership interest in New Energy to XL Innovate Fund, LP ("XL Innovate Fund"), the entity that holds the Company's New Energy shares, in partial satisfaction of the employee's aggregate 5.21% investment commitment to the Fund. See Note 11, "Related Party Transactions," for further details of these transactions.

The Company paid approximately \$8.8 million to acquire the additional interest in New Energy, and realized a gain of approximately \$2.5 million, included within income from operating affiliates, in order to reflect the appropriate fair value adjustment to its existing investment previously accounted for under the equity method. The assets and liabilities of New Energy are now reflected in the consolidated financial statements of the Company based on their fair value as of the acquisition

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date, while Goodwill of approximately \$13.4 million was recorded in conjunction with the transaction. See Note 8, "Goodwill and Other Intangible Assets," for a further discussion of the goodwill recorded in conjunction with the acquisition.

(c) Catlin Acquisition

Overview

On May 1, 2015 (the "Acquisition Date"), the Company completed its acquisition (the "Catlin Acquisition") of the entire issued share capital of Catlin Group Limited ("Catlin") for approximately \$4.1 billion. For further information, see Item 8, Note 3(c), "Acquisitions and Disposals - Catlin Acquisition," to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Pursuant to the terms of the Implementation Agreement, XL-Ireland acquired each ordinary share of Catlin, par value \$0.01 per share ("Catlin Shares"), for consideration per Catlin Share (the "Acquisition Consideration") equal to 388 pence in cash and 0.130 of an XL-Ireland share, par value \$0.01 per share, subject to the mix and match facility set forth in the Implementation Agreement. The newly-issued XL-Ireland shares were listed on the New York Stock Exchange. The XL-Ireland shares issued in connection with the Catlin Acquisition were issued in reliance upon the exemption from registration under the Securities Act provided by Section 3(a)(10) of the Securities Act.

XL-Ireland issued approximately 49.9 million XL-Ireland shares and paid approximately £1.49 billion in cash to the holders of Catlin Shares as Acquisition Consideration.

Fair Value of Net Assets Acquired and Liabilities Assumed

The purchase price was allocated to the acquired assets and assumed liabilities of Catlin based on estimated fair values on the Acquisition Date. The Company recognized goodwill of \$794.0 million, which is primarily attributable to the synergies and economies of scale expected to result upon integration of Catlin into the Company's operations, including further diversification in geographic mix and product offerings and an increase in distribution strength. The Company has allocated \$466.1 million of this goodwill to its Insurance segment and \$327.9 million to its Reinsurance segment. The Company also recognized indefinite lived intangible assets of \$673.0 million and other intangible assets of \$315.0 million, which will be amortized over their estimated useful lives. See Note 8, "Goodwill and Other Intangible Assets," for further information.

As part of the purchase price allocation, the Company adjusted the historical carrying value of the acquired assets and liabilities based on estimated fair values at the Acquisition Date. An explanation of the significant adjustments for fair value that are being amortized to net income is as follows:

Deferred acquisition costs and value of business acquired - The adjustment consists of two components. The first adjustment is the elimination of Catlin's deferred acquisition costs asset. The second adjustment is the establishment of the value of business acquired asset, which represents the present value of the expected underwriting profit within the unearned premiums liability, net of reinsurance, less costs to service the related policies and a risk premium. This adjustment will be amortized to underwriting, acquisition and insurance expenses over approximately two years, as the contracts for business in-force as of the Acquisition Date expire. The Company has included \$39.8 million and \$99.4 million, respectively, in acquisition expenses related to the amortization of the value of business acquired asset during the three and six months ended June 30, 2016 and \$183.3 million for the three and six months ended June 30, 2015.

Unpaid losses and loss adjustment expenses - Unpaid losses and loss adjustment expenses acquired include an increase to adjust the carrying value of Catlin's historical unpaid losses and loss adjustment expenses, net of related reinsurance recoverable, to fair value as of the Acquisition Date. The estimated fair value consists of the present value of the expected net loss and loss adjustment expense payments plus a risk premium. This adjustment, plus the unamortized fair value adjustment included in Catlin's historical unpaid losses and loss adjustment expenses, will be amortized to losses and loss adjustment expenses over a weighted average period of approximately 20 years, based on the estimated payout pattern of net reserves as of the Acquisition Date.



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## Transaction-related Costs

As a part of the ongoing integration of Catlin's operations, the Company incurs costs associated with restructuring the systems, processes and workforce. These costs include such items as severance, retention, facilities and consulting and other costs. The Company separately identifies such costs and includes these expenses within Corporate and Other in its segment disclosure in Note 5, "Segment Information." Costs incurred for the six months ended June 30, 2016 are:

(U.S. dollars in thousands)	Severance related costs	Retention and other compensation costs	Facilities-related costs	Consulting and other	Total
Liabilities at December 31, 2015	\$ 16,127	\$ 16,969	\$ 818	\$ 23,375	\$57,289
Costs incurred in 2016	27,533	15,280	8,331	55,960	107,104
2016 payments	29,743	25,827	4,612	35,371	95,553
Liabilities at June 30, 2016	\$ 13,917	\$ 6,422	\$ 4,537	\$ 43,964	\$68,840

## (d) Sale of Strategic Operating Affiliate

On April 1, 2015, XL Re Ltd ("XL Re"), which, on June 9, 2016 amalgamated with XL Insurance (Bermuda) Ltd and formed XL Bermuda Ltd, an indirect wholly-owned subsidiary of the Company, completed the previously announced sale of all of its shares in ARX Holding Corp. ("ARX") to The Progressive Corporation ("Progressive") pursuant to the terms of the Stock Purchase Agreement with Progressive. XL Re's shares in ARX represented approximately 40.6% of ARX's outstanding capital stock on a fully diluted basis at the time of the announcement. The carrying value of XL Re's shares in ARX was \$220.2 million at the time of the sale.

XL Re received \$560.6 million in proceeds from the transaction, which was based upon the consolidated tangible net book value of ARX and its subsidiaries as of December 31, 2014, and certain other factors. Thus, the Company recorded a gain of \$340.4 million as a result of this transaction.

## 4. Fair Value Measurements

Fair value is defined as the amount that would be received for the sale of an asset or paid to transfer a liability (an exit price), in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants as of the measurement date. Applicable accounting guidance provides an established hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors that market participants would use in valuing the asset or liability. Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

The fair values for available for sale investments are generally sourced from third parties. The fair value of fixed income securities is 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 quotes where pricing services do not provide coverage for a particular security. 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.

The Company performs regular reviews of the prices received from our third party valuation sources to assess whether the prices represent a reasonable estimate of the fair value. This process is completed by investment and accounting personnel who are independent of those responsible for obtaining the valuations. The approaches taken by the Company include, but are not limited to, annual reviews of the controls of the external parties responsible for sourcing valuations that are subjected to automated tolerance checks, quarterly reviews of the valuation sources and dates,

comparisons of executed sales prices to prior valuations, regular deep dives on a sample of securities across our major asset classes and monthly reconciliations between the valuations provided by external parties and valuations provided by third party investment managers at a portfolio level.

In addition, the Company assesses the effectiveness of valuation controls performed by external parties responsible for sourcing appropriate valuations from third parties on our behalf. The approaches taken by these external parties to gain comfort include, but are not limited to, comparing valuations between external sources, completing recurring reviews of third party pricing services' methodologies and reviewing controls of the third party service providers to support the completeness and accuracy of the prices received. Where broker quotes are the primary source of the valuations, sufficient information regarding

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the specific inputs utilized by the brokers is generally not available to support a Level 2 classification. The Company obtains the majority of broker quoted values from third party investment managers who perform independent verifications of these valuations using pricing matrices based upon information gathered by market traders. In addition, for the majority of these securities, the Company compares the broker quotes to independent valuations obtained from third party pricing vendors, which may also consist of broker quotes, to assess if the prices received represent reasonable estimates of the fair value.

For further information about the Company's fair value measurements, see Item 8, Note 2(b), "Significant Accounting Policies - Fair Value Measurements," and Item 8, Note 4, "Fair Value Measurements," to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

## (a) Fair Value Summary

The following tables set forth the Company's assets and liabilities that were accounted for at fair value as of June 30, 2016 and December 31, 2015 by level within the fair value hierarchy:

June 30, 2016 (U.S. dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Collateral and Counterparty Netting	Balance at June 30, 2016
<b>Assets</b>					
Fixed maturities - Available for Sale ("AFS") - Excluding Life Funds Withheld Assets					
U.S. Government and Government-Related/Supported ("U.S. Government")	\$—	\$4,089,832	\$ 44,256	\$	—\$4,134,088
Corporate - Financials	—	3,682,334	43,637	—	3,725,971
Corporate - Non Financials	—	6,826,428	1,929	—	6,828,357
Residential mortgage-backed securities – Agency ("RMBS - Agency")	—	4,455,615	15	—	4,455,630
Residential mortgage-backed securities – Non-Agency ("RMBS - Non-Agency")	—	288,815	—	—	288,815
Commercial mortgage-backed securities ("CMBS")	—	278,314	—	—	278,314
Collateralized debt obligations ("CDOs")	—	6	17,794	—	17,800
Other asset-backed securities	—	1,036,623	6,855	—	1,043,478
U.S. States and political subdivisions of the States	—	2,635,034	—	—	2,635,034
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported ("Non-U.S. Governments")	—	5,607,431	—	—	5,607,431
Total fixed maturities - AFS - Excluding Funds Withheld Assets, at fair value	\$—	\$28,900,432	\$ 114,486	\$	—\$29,014,918
Equity securities, at fair value	547,218	492,575	—	—	1,039,793
Short-term investments, at fair value (1)	—	444,301	—	—	444,301
Total investments AFS - Excluding Funds Withheld Assets	\$547,218	\$29,837,308	\$ 114,486	\$	—\$30,499,012
Fixed maturities - Life Funds Withheld Assets					
U.S. Government	\$—	\$12,499	\$ —	\$	—\$12,499
Corporate - Financials	—	504,464	—	—	504,464



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Corporate - Non Financials	—	1,228,496	—	—	1,228,496
RMBS – Agency	—	686	—	—	686
RMBS – Non-Agency	—	24,252	—	—	24,252
CMBS	—	105,019	—	—	105,019
Other asset-backed securities	—	117,797	—	—	117,797
Non-U.S. Governments	—	850,593	—	—	850,593
Total fixed maturities - AFS - Life Funds Withheld Assets, at fair value	\$—	\$2,843,806	\$—	\$	—\$2,843,806
Total investments - AFS, at fair value	\$547,218	\$32,681,114	\$ 114,486	\$	—\$33,342,818

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June 30, 2016 (U.S. dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Collateral and Counterparty Netting	Balance at June 30, 2016
Fixed maturities - Trading					
U.S. Government	\$—	\$18,570	\$—	\$—	\$18,570
Corporate - Financials	—	416,325	—	—	416,325
Corporate - Non Financials	—	592,848	—	—	592,848
RMBS – Agency	—	1,868	—	—	1,868
RMBS – Non-Agency	—	197	—	—	197
CMBS	—	5,223	—	—	5,223
Other asset-backed securities	—	25,965	—	—	25,965
Non-U.S. Governments	—	417,411	—	—	417,411
Total fixed maturities - Trading, at fair value	\$—	\$1,478,407	\$—	\$—	\$1,478,407
Short-term investments, at fair value (1)	—	18,499	—	—	\$18,499
Total investments, Trading	\$—	\$1,496,906	\$—	\$—	\$1,496,906
Cash equivalents (2)	222,533	1,380,044	—	—	1,602,577
Cash equivalents - Life Funds Withheld Assets (2)	—	100,134	—	—	100,134
Other investments (3)	—	912,790	243,238	—	1,156,028
Other assets (4)	—	62,209	19,600	(2,674 )	79,135
Total assets accounted for at fair value	\$769,751	\$36,633,197	\$377,324	\$ (2,674 )	\$37,777,598
Liabilities					
Funds withheld on GreyCastle life retrocession arrangements (net of future policy benefit reserves recoverable) (5)	\$—	\$900,110	\$—	\$—	\$900,110
Financial instruments sold, but not yet purchased (6)	—	—	—	—	—
Other liabilities (4)	—	22,558	29,436	(2,674 )	49,320
Total liabilities accounted for at fair value	\$—	\$922,668	\$29,436	\$ (2,674 )	\$949,430
December 31, 2015 (U.S. dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Collateral and Counterparty Netting	Balance at December 31, 2015
Assets					
Fixed maturities - AFS - Excluding Life Funds Withheld Assets					
U.S. Government	\$—	\$5,020,574	\$45,063	\$—	\$5,065,637
Corporate - Financials	—	3,508,224	53,685	—	3,561,909
Corporate - Non Financials	—	6,900,259	188	—	6,900,447

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RMBS - Agency	—	3,754,894	3,077	—	3,757,971
RMBS - Non-Agency	—	328,540	—	—	328,540
CMBS	—	405,316	—	—	405,316
CDOs	—	2	32,408	—	32,410
Other asset-backed securities	—	1,150,715	17,857	—	1,168,572
U.S. States and political subdivisions of the States	—	2,632,070	—	—	2,632,070
Non-U.S. Government	—	5,251,614	—	—	5,251,614
Total fixed maturities - AFS - Excluding Funds	\$—	\$28,952,208	\$ 152,278	\$	—\$29,104,486
Withheld Assets, at fair value					
Equity securities, at fair value	528,581	350,338	—	—	878,919
Short-term investments, at fair value (1)	—	617,390	—	—	617,390
Total investments AFS - Excluding Funds Withheld Assets	\$528,581	\$29,919,936	\$ 152,278	\$	—\$30,600,795

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December 31, 2015 (U.S. dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Collateral and Counterparty Netting	Balance at December 31, 2015
<b>Fixed maturities - Life Funds Withheld Assets</b>					
U.S. Government	\$—	\$12,742	\$—	\$—	\$12,742
Corporate - Financials	—	598,236	—	—	598,236
Corporate - Non Financials	—	1,308,628	—	—	1,308,628
RMBS – Agency	—	752	—	—	752
RMBS – Non-Agency	—	26,953	—	—	26,953
CMBS	—	122,481	—	—	122,481
Other asset-backed securities	—	149,795	—	—	149,795
Non-U.S. Government	—	933,516	—	—	933,516
Total fixed maturities - AFS - Life Funds Withheld Assets, at fair value	\$—	\$3,153,103	\$—	\$—	\$3,153,103
Total investments - AFS, at fair value	\$528,581	\$33,073,039	\$152,278	\$—	\$33,753,898
<b>Fixed maturities - Trading</b>					
U.S. Government	\$—	\$4,990	\$—	\$—	\$4,990
Corporate - Financials	—	335,956	—	—	335,956
Corporate - Non Financials	—	493,621	—	—	493,621
RMBS – Agency	—	368	—	—	368
CMBS	—	4,803	—	—	4,803
Other asset-backed securities	—	25,700	—	—	25,700
Non-U.S. Government	—	370,261	—	—	370,261
Total fixed maturities - Trading, at fair value	\$—	\$1,235,699	\$—	\$—	\$1,235,699
Short-term investments, at fair value (1)	—	60,330	—	—	\$60,330
Total investments, Trading	\$—	\$1,296,029	\$—	\$—	\$1,296,029
Cash equivalents (2)	437,742	830,924	—	—	1,268,666
Cash equivalents - Life Funds Withheld Assets (2)	517	100,757	—	—	101,274
Other investments (3)	—	1,008,176	283,550	—	1,291,726
Other assets (4)	—	69,914	19,400	(3,087)	86,227
Total assets accounted for at fair value	\$966,840	\$36,378,839	\$455,228	\$ (3,087)	\$37,797,820
<b>Liabilities</b>					
Funds withheld on GreyCastle life retrocession arrangements (net of future policy benefit reserves recoverable) (5)	\$—	\$463,915	\$—	\$—	\$463,915
Financial instruments sold, but not yet purchased (6)	347	—	—	—	347
Other liabilities (4)	—	16,304	29,191	(3,087)	42,408
Total liabilities accounted for at fair value	\$347	\$480,219	\$29,191	\$ (3,087)	\$506,670

(1) Short-term investments consist primarily of Corporate securities and U.S. and Non-U.S. Government and Government-Related/Supported securities.

(2)

Cash equivalents balances subject to fair value measurement include certificates of deposit and money market funds. Operating cash balances are not subject to recurring fair value measurement guidance.

(3) The Other investments balance excludes a certain payment obligation. This investment, which totaled \$141.7 million as of June 30, 2016 and \$141.3 million as of December 31, 2015, is carried at amortized cost. For further information, see Item 8, Note 8, "Other Investments," to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

(4) Other assets and other liabilities include derivative instruments. The derivative balances included in each category are reported on a gross basis by level with a netting adjustment presented separately in the Collateral and Counterparty Netting column. The fair values of the individual derivative contracts are reported gross in their respective levels based on the fair value hierarchy. For further details regarding derivative fair values and associated collateral received or paid, see Note 7, "Derivative Instruments."

(5) Funds withheld on GreyCastle life retrocession arrangements (net of future policy benefit reserves recoverable) include balances related to the life retrocession embedded derivative, under which all investment results associated with the Life Funds Withheld Assets related to the GreyCastle Life Retro Arrangements described in Note 1, "Basis of Preparation and Consolidation," accrue to the benefit of GCLR.

(6) Financial instruments sold, but not yet purchased, represent "short sales" and are included within "Payable for investments purchased" on the balance sheets.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(b) Level 2 Asset Valuations

U.S. Government, Corporate - Financials, Corporate - Non Financials and Non-U.S. Government

Transaction activity inputs utilized in the valuation of fair value hierarchy Level 2 securities within these sub-categories include actual trades, dealer posts, results of bids-wanted, institutional secondary offerings, primary market offerings and Trade Reporting and Compliance Engine ("TRACE") trade feeds. As part of the evaluation process, transaction activity is compared to prior evaluations and necessary adjustments are made accordingly. Market-color inputs include actively quoted benchmark issues, buy-side/evaluator dialogue, sell-side/evaluator dialogue and credit derivative indices.

RMBS - Agency, RMBS - Non-Agency, CMBS, CDO and Other asset-backed securities

As part of the fair valuation process, Level 2 securities in these sub-categories are analyzed by collateral type, deal structure, deal performance and vintage. Market inputs into the valuation process for each sub-category include reported or observed trades, results of bids-wanted, buy-side/sell-side evaluator dialogue, dealer offering and market research reports. Cash flow inputs into the evaluation process include conditional prepayment rates, conditional decay rates, delinquency and loss severity rates. This assumptive data is reviewed and updated using third party reported information to reflect current market convention.

U.S. States and political subdivisions of the States

Transaction activity inputs utilized in the valuation of fair value hierarchy Level 2 securities within this sub-category include client and broker trades, dealer posts, results of bids-wanted, institutional secondary offerings, primary market offerings, and Municipal Securities Rulemaking trade feeds. As part of the evaluation process, transaction activity is compared to prior evaluations and necessary adjustments are made accordingly. Market-color inputs include bids, offerings, two-sided markets, buy-side/evaluator dialogue and sell-side/evaluator dialogue. Credit information inputs include issuer financial statements, default and material event notices, developer reports and liquidation and restructuring analysis.

Equity securities and other investments

Other investment securities generally include investments in thinly traded equity funds and hedge funds. Fair value is determined based upon the most recent net asset values ("NAV") received from the fund administrators, the nature of the underlying investments in the funds and the frequency of subscriptions or redemptions as dictated by the fund's governing documents.

Other assets and other liabilities

Other assets and other liabilities primarily include over-the-counter ("OTC") derivatives, which 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 independent 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 Company 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.

There were no significant transfers between Level 1 and Level 2 during each of the three and six months ended June 30, 2016 and 2015.

(c) Level 3 Assets and Liabilities

The tables below present additional information about assets and liabilities measured at fair value on a recurring basis and for which Level 3 inputs were utilized to determine fair value. The tables present a reconciliation of the beginning and ending balances for the three and six months ended June 30, 2016 and 2015 for all financial assets and liabilities measured at fair value using significant unobservable inputs (Level 3) at June 30, 2016 and 2015, respectively. The tables do not include gains or losses that were reported in Level 3 in prior periods for assets that were transferred out

of Level 3 prior to June 30, 2016 and 2015, respectively. Gains and losses for assets and liabilities classified within Level 3 in the table below may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). Further, it should be noted that the following tables do not take into consideration the effect of offsetting Level 1 and 2 financial instruments entered into by the Company that are either economically hedged by certain exposures to the Level 3 positions or that hedge the exposures in Level 3 positions.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

In general, Level 3 assets include securities for which values were obtained from brokers where either significant inputs were utilized in determining the values that were 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. Transfers into or out of Level 3 may arise as a result of the valuations utilized by the Company changing between either those provided by independent pricing services that do not contain significant unobservable inputs and other valuations sourced from brokers that are considered Level 3.

Fixed maturities and short-term investments

The Company's Level 3 assets consist primarily of U.S. Government and Government-Related/Supported, Corporates and CDOs, for which non-binding broker quotes are the primary source of the valuations. Sufficient information regarding the specific inputs utilized by the brokers was not available to support a Level 2 classification. The Company obtains the majority of broker quotes for these securities from third party investment managers who perform independent verifications of these valuations using pricing matrices based upon information gathered by market traders. In addition, for the majority of these securities, the Company compares the broker quotes to independent valuations obtained from third party pricing vendors, which may also consist of broker quotes, to assess if the prices received represent a reasonable estimate of the fair value. Although the Company does not have access to the specific unobservable inputs that may have been used in the fair value measurements of these securities provided by brokers, we would expect that the significant inputs considered are prepayment rates, probability of default, loss severity in the event of default, recovery rates, liquidity premium and reinvestment rates. Significant increases (decreases) in any of those inputs in isolation could result in a significantly different fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

The remainder of the Level 3 assets relate primarily to private investments (including funds) and certain derivative positions as described below.

Other investments

Included within the other investments component of the Company's Level 3 valuations are private investments (including funds) and hedge funds where the Company is not deemed to have significant influence over the investee. The fair value of these investments is based upon net asset values received from the investment manager or general partner of the respective entity. The underlying investments held by the investee that form the basis of the net asset value include assets such as private business ventures and are such that significant Level 3 inputs are utilized in the determination of the individual underlying holding values and, accordingly, the fair value of the Company's investment in each entity is classified within Level 3. The Company has not adjusted the net asset values received; however, management reviews the values received incorporating factors such as the most recent financial information received, annual audited financial statements and the values at which capital transactions with the investee take place when applying judgment regarding whether any adjustments should be made to the net asset value in recording the fair value of each position. Investments in hedge funds included in other investments utilize strategies including arbitrage, directional, event driven and multi-style. The funds potentially have lockup and gate provisions that may limit redemption liquidity. For further details regarding the nature of other investments and related features, see Item 8, Note 8, "Other Investments," to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Derivative instruments

Derivative instruments recorded within other liabilities and classified within Level 3 include credit derivatives sold that provide protection on senior tranches of structured finance transactions where the value is obtained directly from the investment bank counterparty and sufficient information regarding the inputs utilized in such valuation was not obtained to support a Level 2 classification and guaranteed minimum income benefits embedded within one reinsurance contract. The majority of inputs utilized in the valuations of these types of derivative contracts are considered Level 1 or Level 2; however, each valuation includes at least one Level 3 input that was significant to the valuation and, accordingly, the values are disclosed within Level 3.



The calculation of the change in fair value of the embedded derivative associated with the GreyCastle Life Retro Arrangements includes the interest income, realized and unrealized gains and losses on Life Funds Withheld Assets and certain related expenses related to the Life Funds Withheld Assets. The fair value of the embedded derivative is included in “Funds withheld on GreyCastle life retrocession arrangements, net of future policy benefit reserves recoverable” on the consolidated balance sheets. The fair value of the embedded derivative is considered a Level 2 valuation.

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## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(U.S. dollars in thousands)	Level 3 Assets and Liabilities - Three Months Ended June 30, 2016			
	U.S. Government	Corporate - Financials	Corporate - Non-Financials	RMBS - Agency
Balance, beginning of period	\$44,940	\$ 43,583	\$ 181	\$ 2,853
Realized gains (losses)	(38 )	44	—	—
Movement in unrealized gains (losses)	34	(29 )	1	—
Purchases and issuances	—	39	1,747	—
Sales	—	—	—	—
Settlements	(680 )	—	—	(1 )
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	(2,837 )
Balance, end of period	\$44,256	\$ 43,637	\$ 1,929	\$ 15
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$(3 )	\$ 16	\$ 1	\$—

  

(U.S. dollars in thousands)	RMBS -			Other asset-backed securities
	Non Agency	CMBS	CDO	
Balance, beginning of period	\$—	\$—	\$ 21,729	\$ 4,200
Realized gains (losses)	—	—	49	(527 )
Movement in unrealized gains (losses)	—	—	473	561
Purchases and issuances	—	—	—	1,072
Sales	—	—	—	—
Settlements	—	—	(4,457 )	(571 )
Transfers into Level 3	—	—	—	3,015
Transfers out of Level 3	—	—	—	(895 )
Balance, end of period	\$—	\$—	\$ 17,794	\$ 6,855
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$—	\$—	\$ 522	\$ 35

  

(U.S. dollars in thousands)	Non-U.S. Government			Derivative Contracts - Net
	Short-term investments	Other investments		
Balance, beginning of period	\$—	\$—	\$ 301,095	\$(9,852 )
Realized gains (losses)	—	—	1,024	—
Movement in unrealized gains (losses)	—	—	(5,740 )	16
Purchases and issuances	—	—	11,374	—
Sales	—	—	—	—
Settlements	—	—	(4,647 )	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	(59,868 )	—
Balance, end of period	\$—	\$—	\$ 243,238	\$(9,836 )
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$—	\$—	\$ (4,716 )	\$ 16



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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(U.S. dollars in thousands)	Level 3 Assets and Liabilities - Three Months Ended June 30, 2015		
	U.S. Government - Corporate - Financials	Corporate - Non-Financials	RMBS - Agency
Balance, beginning of period	\$—	\$ 5,861	\$ 1,820
Realized gains (losses)	—	(140)	) —
Movement in unrealized gains (losses)	—	(44)	) (1 )
Purchases and issuances	—10,000	(123)	) 1,297
Sales	—	—	—
Settlements	—	—	(78 )
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Balance, end of period	\$— 10,000	\$ 5,554	\$ 3,038
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$—	\$ (184)	) \$(1 )

  

(U.S. dollars in thousands)	RMBS	CDO	Other asset-backed securities
	- CMBS Non Agency		
Balance, beginning of period	\$—	\$ 496,923	\$ 2,244
Realized gains (losses)	—	224	92
Movement in unrealized gains (losses)	—	2,445	8
Purchases and issuances	—	11,941	40,628
Sales	—	—	—
Settlements	—	(27,362)	) (227 )
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Balance, end of period	\$—	\$ 484,171	\$ 42,745
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$—	\$ 2,057	\$ 100

  

(U.S. dollars in thousands)	Short-Term Government Investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	\$—	\$ 190,097	\$(9,606 )
Realized gains (losses)	—	1,291	—
Movement in unrealized gains (losses)	—	(139)	) (147 )
Purchases and issuances	—	66,510	—
Sales	—	—	—
Settlements	—	(2,087)	) —
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Balance, end of period	\$—	\$ 255,672	\$(9,753 )
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$—	\$ 1,152	\$(147 )



## XL GROUP PLC

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(U.S. dollars in thousands)	Level 3 Assets and Liabilities - Six Months Ended June 30, 2016			
	U.S. Government	Corporate - Financials	Corporate - Non-Financials	RMBS - Agency
Balance, beginning of period	\$45,063	\$ 53,685	\$ 188	\$ 3,077
Realized gains (losses)	(75 )	97	—	(3 )
Movement in unrealized gains (losses)	627	(68 )	—	7
Purchases and issuances	—	208	1,747	—
Sales	—	—	—	—
Settlements	(1,359 )	—	(6 )	(229 )
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	(10,285 )	—	(2,837 )
Balance, end of period	\$44,256	\$ 43,637	\$ 1,929	\$ 15
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$551	\$ 31	\$ —	\$ 4

  

(U.S. dollars in thousands)	RMBS -	CMBS	CDO	Other asset-backed securities
	Non Agency			
Balance, beginning of period	\$—	\$ —	\$ 32,408	\$ 17,857
Realized gains (losses)	—	—	90	522
Movement in unrealized gains (losses)	—	—	5,730	(2,197 )
Purchases and issuances	—	—	—	1,072
Sales	—	—	—	—
Settlements	—	—	(20,434 )	(12,519 )
Transfers into Level 3	—	—	—	3,015
Transfers out of Level 3	—	—	—	(895 )
Balance, end of period	\$—	\$ —	\$ 17,794	\$ 6,855
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$—	\$ —	\$ 5,819	\$(1,673 )

  

(U.S. dollars in thousands)	Non-U.S. Government	Short-term investments	Other investments	Derivative Contracts - Net
	Balance, beginning of period	\$—	\$ —	\$ 283,550
Realized gains (losses)	—	—	6,831	—
Movement in unrealized gains (losses)	—	—	(8,457 )	(45 )
Purchases and issuances	—	—	25,153	—
Sales	—	—	—	—
Settlements	—	—	(19,465 )	—
Transfers into Level 3	—	—	15,494	—
Transfers out of Level 3	—	—	(59,868 )	—
Balance, end of period	\$—	\$ —	\$ 243,238	\$(9,836 )
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$—	\$ —	\$ (1,626 )	\$(45 )



## XL GROUP PLC

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(U.S. dollars in thousands)	Level 3 Assets and Liabilities - Six Months Ended June 30, 2015		
	U.S. Government - Corporate - Financials	Corporate - Non-Financials	RMBS - Agency
Balance, beginning of period	\$ —	\$ 5,894	\$ 1,910
Realized gains (losses)	—	(141 )	—
Movement in unrealized gains (losses)	—	4	(2 )
Purchases and issuances (1)	—10,000	(123 )	1,297
Sales	—	—	—
Settlements	—	(80 )	(167 )
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Balance, end of period	\$ 10,000	\$ 5,554	\$ 3,038
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ —	\$ (136 )	\$ —

  

(U.S. dollars in thousands)	RMBS - CMBS Non Agency	CDO	Other asset-backed securities
	Balance, beginning of period	\$ —	\$ 687,958
Realized gains (losses)	—	260	91
Movement in unrealized gains (losses)	—	8,000	10
Purchases and issuances (1)	—	11,941	40,628
Sales	—	(155,085 )	—
Settlements	—	(68,903 )	(3,272 )
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Balance, end of period	\$ —	\$ 484,171	\$ 42,745
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ —	\$ 4,725	\$ 100

  

(U.S. dollars in thousands)	Short-Term Government investments	Other investments	Derivative Contracts - Net
	Balance, beginning of period	\$ —	\$ 185,083
Realized gains (losses)	—	2,593	—
Movement in unrealized gains (losses)	—	(1,966 )	11
Purchases and issuances (1)	—	73,303	—
Sales	—	—	—
Settlements	—	(3,341 )	—
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Balance, end of period	\$ —	\$ 255,672	\$(9,753 )
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ —	\$ 628	\$ 11





## XL GROUP PLC

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## (d) Financial Instruments Not Carried at Fair Value

Authoritative guidance over disclosures about the fair value of financial instruments requires additional disclosure of fair value information for financial instruments not carried at fair value in both interim and annual reporting periods. Certain financial instruments, particularly insurance contracts, are excluded from these fair value disclosure requirements. The carrying values of cash and cash equivalents, accrued investment income, net receivable from investments sold, other assets, net payable for investments purchased, other liabilities and other financial instruments not included below approximated their fair values.

The following table includes financial instruments for which the carrying value differs from the estimated fair values as of June 30, 2016 and December 31, 2015. All of these fair value estimates are considered Level 2 fair value measurements.

(U.S. dollars in thousands)	June 30, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets - Other investments	\$141,675	\$153,622	\$141,329	\$154,065
Deposit liabilities	\$1,178,113	\$1,504,030	\$1,168,376	\$1,436,210
Notes payable and debt	2,646,324	2,866,838	2,644,970	2,805,152
Financial Liabilities	\$3,824,437	\$4,370,868	\$3,813,346	\$4,241,362

The Company historically participated in structured transactions. Remaining structured transactions include cash loans supporting project finance transactions, a liquidity facility financing provided to structured project deals and an investment in a payment obligation with an insurance company. These transactions are carried at amortized cost. The fair value of these investments held by the Company is determined through use of internal models utilizing reported trades, benchmark yields, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data.

Deposit liabilities include obligations under structured insurance and reinsurance transactions. For purposes of fair value disclosures, 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 49.9 basis points and 26.5 basis points as of June 30, 2016 and December 31, 2015, respectively. The discount rate incorporates the Company's own credit risk into the determination of estimated fair value.

The fair values of the Company's notes payable and debt outstanding were determined based on quoted market prices. There are no significant concentrations of credit risk within the Company's financial instruments as defined in the authoritative guidance over disclosures of fair value of financial instruments not carried at fair value, which excludes certain financial instruments, particularly insurance contracts.

## 5. Segment Information

The Company is organized into two operating segments: Insurance and Reinsurance. Subsequent to the transaction described in Note 3(c), "Acquisitions and Disposals - Catlin Acquisition," the underwriting results of the acquired businesses from the Acquisition Date through June 30, 2016 are included in the Company's Insurance or Reinsurance segment, as appropriate.

The Company's general investment and financing operations are reflected in "Corporate and Other." Subsequent to the transaction described in Note 1, "Basis of Preparation and Consolidation," GCLR reinsures the majority of the Company's life reinsurance business through the GreyCastle Life Retro Arrangements. The results of the run-off life operations not subject to the GreyCastle Life Retro Arrangements are also reported within Corporate and Other. The Company evaluates the performance of both the Insurance and Reinsurance segments based on underwriting profit. Other items of revenues and expenditures of the Company are not evaluated at the segment level. In addition, the Company does not allocate investment assets used to support its Property and Casualty ("P&C") operations to the individual segments, except as noted below. Investment assets related to the Company's run-off life operations and certain structured products included in the Insurance and Reinsurance segments are held in separately identified portfolios. As such, net investment income from these assets is included in the contribution from the applicable

segment or in Corporate and Other.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following tables summarize the segment results for the three and six months ended June 30, 2016 and 2015:

Three Months Ended June 30, 2016 (U.S. dollars in thousands, except ratios)	Insurance	Reinsurance	Total P&C	Corporate and Other (1)	Total
Gross premiums written	\$2,512,012	\$1,018,766	\$3,530,778	\$68,545	\$3,599,323
Net premiums written	1,780,192	942,419	2,722,611	3,508	2,726,119
Net premiums earned	1,696,720	831,984	2,528,704	3,508	2,532,212
Less: Net losses and loss expenses (2)	1,095,739	536,647	1,632,386	5,482	1,637,868
Less: Acquisition costs (2)	232,414	186,283	418,697	1,823	420,520
Less: Operating expenses (3)	307,468	68,260	375,728	405	376,133
Underwriting profit (loss)	\$61,099	\$40,794	\$101,893	\$(4,202)	\$97,691
Net investment income - excluding Life Funds Withheld Assets (4)			154,642	7,525	162,167
Net investment income - Life Funds Withheld Assets				39,146	39,146
Net results from structured products (5)	2,765	(706)	2,059	—	2,059
Net fee income and other (6)	(3,749)	1,248	(2,501)	171	(2,330)
Net realized gains (losses) on investments - excluding Life Funds Withheld Assets			27,948	(8,480)	19,468
Net realized gains (losses) on investments and net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets			(71)	85,220	85,149
Net realized and unrealized gains (losses) on derivative instruments			—	906	906
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets			—	(229,742)	(229,742)
Net income (loss) from investment fund affiliates and operating affiliates			—	34,597	34,597
Less: Exchange (gains) losses			—	(19,100)	(19,100)
Less: Corporate operating expenses			—	133,185	133,185
Contribution from P&C and Corporate and Other			283,970	(188,944)	95,026
Less: Interest expense (7)				43,733	43,733
Less: Non-controlling interests				5,044	5,044
Less: Income tax expense				2,467	2,467
Net income (loss) attributable to ordinary shareholders					\$43,782
Ratios – P&C operations: (8)					
Loss and loss expense ratio	64.6	% 64.5	% 64.6	%	
Underwriting expense ratio	31.8	% 30.6	% 31.4	%	
Combined ratio	96.4	% 95.1	% 96.0	%	

(1) Corporate and Other includes other items of our revenue and expenditures that are not evaluated at the segment level for reporting purposes, as well as the Company's run-off life operations.

(2) The Company has reflected the amortization of certain fair value adjustments recorded in conjunction with the Catlin Acquisition within the respective segments.

(3) Operating expenses of the segments exclude Corporate operating expenses, shown separately.

- (4) Net investment income - excluding Life Funds Withheld Assets does not include net investment income related to the net results from structured products.
- (5) The net results from P&C structured products include net investment income and interest expense of \$14.1 million and \$12.0 million, respectively.
- (6) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business.
- (7) Interest expense excludes interest expense related to structured products recorded in the Insurance and Reinsurance segments.
- (8) Ratios are based on net premiums earned from P&C operations.

## XL GROUP PLC

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended June 30, 2015 (U.S. dollars in thousands, except ratios)	Insurance	Reinsurance	Total P&C	Corporate and Other (1)	Total
Gross premiums written	\$2,219,444	\$782,248	\$3,001,692	\$79,443	\$3,081,135
Net premiums written	1,401,772	698,301	2,100,073	18,258	2,118,331
Net premiums earned	1,412,906	650,889	2,063,795	18,258	2,082,053
Less: Net losses and loss expenses (2)	896,370	254,825	1,151,195	22,081	1,173,276
Less: Acquisition costs (2)	181,716	158,217	339,933	1,684	341,617
Less: Operating expenses (3)	292,161	71,727	363,888	(59 )	363,829
Underwriting profit (loss)	\$42,659	\$166,120	\$208,779	\$(5,448 )	\$203,331
Net investment income - excluding Life Funds Withheld Assets (4)			149,461	10,831	160,292
Net investment income - Life Funds Withheld Assets				46,864	46,864
Net results from structured products (5)	3,401	1,856	5,257	—	5,257
Net fee income and other (6)	(2,033 )	623	(1,410 )	46	(1,364 )
Net realized gains (losses) on investments - excluding Life Funds Withheld Assets			4,223	128	4,351
Net realized gains (losses) on investments and net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets			—	45,616	45,616
Net realized and unrealized gains (losses) on derivative instruments			—	48,509	48,509
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets			—	239,174	239,174
Net income (loss) from investment fund affiliates and operating affiliates			—	40,839	40,839
Gain on sale of operating affiliate				340,407	340,407
Less: Exchange (gains) losses				10,374	10,374
Less: Corporate operating expenses				130,987	130,987
Contribution from P&C and Corporate and Other			366,310	625,605	991,915
Less: Interest expense (7)				39,038	39,038
Less: Non-controlling interests				4,879	4,879
Less: Income tax expense				32,959	32,959
Net income (loss) attributable to ordinary shareholders					\$915,039
Ratios – P&C operations: (8)					
Loss and loss expense ratio	63.4	% 39.2	% 55.8	%	
Underwriting expense ratio	33.6	% 35.3	% 34.1	%	
Combined ratio	97.0	% 74.5	% 89.9	%	

(1) Corporate and Other includes other items of our revenue and expenditures that are not evaluated at the segment level for reporting purposes, as well as the Company's run-off life operations.

(2) The Company has reflected the amortization of certain fair value adjustments recorded in conjunction with the Catlin Acquisition within the respective segments.

(3) Operating expenses of the segments exclude Corporate operating expenses, shown separately.

- (4) Net investment income - excluding Life Funds Withheld Assets does not include net investment income related to the net results from structured products.
- (5) The net results from P&C structured products include net investment income and interest expense of \$16.0 million and \$10.6 million, respectively.
- (6) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business.
- (7) Interest expense excludes interest expense related to structured products recorded in the Insurance and Reinsurance segments.
- (8) Ratios are based on net premiums earned from P&C operations.

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## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Six Months Ended June 30, 2016 (U.S. dollars in thousands, except ratios)	Insurance	Reinsurance	Total P&C	Corporate and Other (1)	Total
Gross premiums written	\$5,015,984	\$2,874,109	\$7,890,093	\$137,456	\$8,027,549
Net premiums written	3,284,126	2,500,080	5,784,206	6,672	5,790,878
Net premiums earned	3,290,594	1,589,556	4,880,150	6,672	4,886,822
Less: Net losses and loss expenses (2)	2,095,331	919,540	3,014,871	10,419	3,025,290
Less: Acquisition costs (2)	457,872	362,631	820,503	3,284	823,787
Less: Operating expenses (3)	619,900	147,494	767,394	623	768,017
Underwriting profit (loss)	\$117,491	\$159,891	\$277,382	\$(7,654)	\$269,728
Net investment income - excluding Life Funds Withheld Assets (4)			297,773	16,058	313,831
Net investment income - Life Funds Withheld Assets				80,706	80,706
Net results from structured products (5)	3,987	42	4,029	—	4,029
Net fee income and other (6)	(7,611)	2,085	(5,526)	473	(5,053)
Net realized gains (losses) on investments - excluding Life Funds Withheld Assets			16,788	(5,736)	11,052
Net realized gains (losses) on investments and net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets			(71)	186,386	186,315
Net realized and unrealized gains (losses) on derivative instruments			—	(2,716)	(2,716)
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets			—	(465,822)	(465,822)
Net income (loss) from investment fund affiliates and operating affiliates			—	42,668	42,668
Less: Exchange (gains) losses			—	(52,919)	(52,919)
Less: Corporate operating expenses			—	245,695	245,695
Contribution from P&C and Corporate and Other			590,375	(348,413)	241,962
Less: Interest expense (7)				85,346	85,346
Less: Non-controlling interests				66,187	66,187
Less: Income tax expense				24,762	24,762
Net income (loss) attributable to ordinary shareholders					\$65,667
Ratios – P&C operations: (8)					
Loss and loss expense ratio	63.7	% 57.8	% 61.8	%	
Underwriting expense ratio	32.7	% 32.1	% 32.5	%	
Combined ratio	96.4	% 89.9	% 94.3	%	

(1) Corporate and Other includes other items of our revenue and expenditures that are not evaluated at the segment level for reporting purposes, as well as the Company's run-off life operations.

(2) The Company has reflected the amortization of certain fair value adjustments recorded in conjunction with the Catlin Acquisition within the respective segments.

(3) Operating expenses of the segments exclude Corporate operating expenses, shown separately.

(4)



Net investment income - excluding Life Funds Withheld Assets does not include net investment income related to the net results from structured products.

- (5) The net results from P&C structured products include net investment income and interest expense of \$26.7 million and \$22.7 million, respectively.
- (6) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business.
- (7) Interest expense excludes interest expense related to structured products recorded in the Insurance and Reinsurance segments.
- (8) Ratios are based on net premiums earned from P&C operations.

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## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Six Months Ended June 30, 2015 (U.S. dollars in thousands, except ratios)	Insurance	Reinsurance	Total P&C	Corporate and Other (1)	Total
Gross premiums written	\$3,874,191	\$1,607,910	\$5,482,101	\$154,394	\$5,636,495
Net premiums written	2,490,880	1,445,936	3,936,816	32,764	3,969,580
Net premiums earned	2,375,212	1,008,077	3,383,289	32,764	3,416,053
Less: Net losses and loss expenses (2)	1,513,317	407,705	1,921,022	41,468	1,962,490
Less: Acquisition costs (2)	262,103	229,709	491,812	3,501	495,313
Less: Operating expenses (3)	500,618	114,222	614,840	872	615,712
Underwriting profit (loss)	\$99,174	\$256,441	\$355,615	\$(13,077)	\$342,538
Net investment income - excluding Life Funds Withheld Assets (4)			282,269	21,041	303,310
Net investment income - Life Funds Withheld Assets				97,283	97,283
Net results from structured products (5)	6,306	3,976	10,282	—	10,282
Net fee income and other (6)	(9,498)	1,448	(8,050)	178	(7,872)
Net realized gains (losses) on investments - excluding Life Funds Withheld Assets			10,030	(1,077)	8,953
Net realized gains (losses) on investments and net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets			—	93,905	93,905
Net realized and unrealized gains (losses) on derivative instruments			—	65,030	65,030
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets			—	9,807	9,807
Net income (loss) from investment fund affiliates and operating affiliates			—	98,836	98,836
Gain on sale of operating affiliate				340,407	340,407
Less: Exchange (gains) losses			—	37,764	37,764
Less: Corporate operating expenses			—	193,430	193,430
Contribution from P&C and Corporate and Other			650,146	481,139	1,131,285
Less: Interest expense (7)				80,519	80,519
Less: Non-controlling interests				42,269	42,269
Less: Income tax expense				57,177	57,177
Net income (loss) attributable to ordinary shareholders					\$951,320
Ratios – P&C operations: (8)					
Loss and loss expense ratio	63.7	% 40.4	% 56.8	%	
Underwriting expense ratio	32.1	% 34.2	% 32.7	%	
Combined ratio	95.8	% 74.6	% 89.5	%	

(1) Corporate and Other includes other items of our revenue and expenditures that are not evaluated at the segment level for reporting purposes, as well as the Company's run-off life operations.

(2) The Company has reflected the amortization of certain fair value adjustments recorded in conjunction with the Catlin Acquisition within the respective segments.

(3) Operating expenses of the segments exclude Corporate operating expenses, shown separately.

- (4) Net investment income - excluding Life Funds Withheld Assets does not include net investment income related to the net results from structured products.
- (5) The net results from P&C structured products include net investment income and interest expense of \$31.1 million and \$20.6 million, respectively.
- (6) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business.
- (7) Interest expense excludes interest expense related to structured products recorded in the Insurance and Reinsurance segments.
- (8) Ratios are based on net premiums earned from P&C operations.

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## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following tables summarize the Company's net premiums earned by line of business for the three and six months ended June 30, 2016 and 2015:

Three Months Ended June 30, 2016 (U.S. dollars in thousands)	Insurance	Reinsurance	Corporate and Other	Total
P&C Operations:				
Professional	\$319,344	\$39,798	\$—	\$359,142
Casualty	448,000	191,447	—	639,447
Property catastrophe	—	214,313	—	214,313
Property	380,641	260,270	—	640,911
Specialty	395,962	45,812	—	441,774
Other (1)	152,773	80,344	—	233,117
Total P&C Operations	\$1,696,720	\$831,984	\$—	\$2,528,704
Corporate and Other:				
Run-off Life operations - Annuity	\$—	\$—	\$1	\$1
Run-off Life operations - Other Life	—	—	3,507	3,507
Total Corporate and Other	\$—	\$—	\$3,508	\$3,508
Total	\$1,696,720	\$831,984	\$3,508	\$2,532,212

Three Months Ended June 30, 2015 (U.S. dollars in thousands)	Insurance	Reinsurance	Corporate and Other	Total
P&C Operations:				
Professional	\$286,359	\$43,225	\$—	\$329,584
Casualty	453,527	125,787	—	579,314
Property catastrophe	—	163,452	—	163,452
Property	306,028	231,898	—	537,926
Specialty	354,557	32,549	—	387,106
Other (1)	12,435	53,978	—	66,413
Total P&C Operations	\$1,412,906	\$650,889	\$—	\$2,063,795
Corporate and Other:				
Run-off Life operations - Annuity	\$—	\$—	\$1	\$1
Run-off Life operations - Other Life	—	—	18,257	18,257
Total Corporate and Other	\$—	\$—	\$18,258	\$18,258
Total	\$1,412,906	\$650,889	\$18,258	\$2,082,053

Other within the Insurance segment includes: excess and surplus, programs, surety, structured indemnity and (1)certain discontinued lines. Other within the Reinsurance segment includes: whole account contracts, structured indemnity and other lines.

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 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Six Months Ended June 30, 2016 (U.S. dollars in thousands)	Insurance	Reinsurance	Corporate and Other	Total
P&C Operations:				
Professional	\$652,298	\$82,953	\$—	\$735,251
Casualty	868,212	346,186	—	1,214,398
Property catastrophe	—	419,614	—	419,614
Property	740,274	514,669	—	1,254,943
Specialty	763,314	82,005	—	845,319
Other (1)	266,496	144,129	—	410,625
Total P&C Operations	\$3,290,594	\$1,589,556	\$—	\$4,880,150
Corporate and Other:				
Run-off Life operations - Annuity	\$—	\$—	\$1	\$1
Run-off Life operations - Other Life	—	—	6,671	6,671
Total Corporate and Other	\$—	\$—	\$6,672	\$6,672
Total	\$3,290,594	\$1,589,556	\$6,672	\$4,886,822

Six Months Ended June 30, 2015 (U.S. dollars in thousands)	Insurance	Reinsurance	Corporate and Other	Total
P&C Operations:				
Professional	\$552,772	\$78,233	\$—	\$631,005
Casualty	794,843	183,995	—	978,838
Property catastrophe	—	257,525	—	257,525
Property	478,447	363,122	—	841,569
Specialty	526,553	50,624	—	577,177
Other (1)	22,597	74,578	—	97,175
Total P&C Operations	\$2,375,212	\$1,008,077	\$—	\$3,383,289
Corporate and Other:				
Run-off Life operations - Annuity	\$—	\$—	\$—	\$—
Run-off Life operations - Other Life	—	—	32,764	32,764
Total Corporate and Other	\$—	\$—	\$32,764	\$32,764
Total	\$2,375,212	\$1,008,077	\$32,764	\$3,416,053

Other within the Insurance segment includes: excess and surplus, programs, surety, structured indemnity and (1)certain discontinued lines. Other within the Reinsurance segment includes: whole account contracts, structured indemnity and other lines.

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## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 6. Investments

## (a) Fixed Maturities, Short-Term Investments and Equity Securities

## Amortized Cost and Fair Value Summary

The cost (amortized cost for fixed maturities and short-term investments), fair value, gross unrealized gains and gross unrealized (losses), including non-credit related OTTI recorded in AOCI, of the Company's AFS investments as of June 30, 2016 and December 31, 2015 were as follows:

June 30, 2016 (U.S. dollars in thousands)	Cost or Amortized Cost	Included in AOCI		Fair Value	Non-credit Related OTTI (1)
		Gross Unrealized Gains	Gross Unrealized Losses		
Fixed maturities - AFS					
U.S. Government	\$4,006,824	\$130,453	\$(3,189)	\$4,134,088	\$—
Corporate - Financials	3,657,989	95,287	(27,305)	3,725,971	—
Corporate - Non Financials	6,619,610	263,286	(54,539)	6,828,357	(187)
RMBS – Agency	4,330,183	127,847	(2,400)	4,455,630	—
RMBS – Non-Agency	287,736	19,145	(18,066)	288,815	(50,013)
CMBS	270,546	10,878	(3,110)	278,314	(1,231)
CDO	21,437	3	(3,640)	17,800	(1,208)
Other asset-backed securities	1,030,209	22,669	(9,400)	1,043,478	(974)
U.S. States and political subdivisions of the States	2,452,935	183,357	(1,258)	2,635,034	—
Non-U.S. Governments	5,481,374	200,030	(73,973)	5,607,431	—
Total fixed maturities - AFS - Excluding Life Funds Withheld Assets	\$28,158,843	\$1,052,955	\$(196,880)	\$29,014,918	\$(53,613)
Total short-term investments - Excluding Life Funds Withheld Assets	446,469	1,347	(3,515)	444,301	—
Total equity securities	955,231	104,985	(20,423)	1,039,793	—
Total investments - AFS - Excluding Life Funds Withheld Assets	\$29,560,543	\$1,159,287	\$(220,818)	\$30,499,012	\$(53,613)
Fixed maturities - AFS - Life Funds Withheld Assets					
U.S. Government	\$9,691	\$2,808	\$—	\$12,499	\$—
Corporate - Financials	441,261	63,203	—	504,464	—
Corporate - Non Financials	976,385	252,111	—	1,228,496	—
RMBS – Agency	545	141	—	686	—
RMBS – Non-Agency	21,384	2,868	—	24,252	—
CMBS	86,373	18,646	—	105,019	—
Other asset-backed securities	98,736	19,061	—	117,797	—
Non-U.S. Governments	596,382	254,211	—	850,593	—
Total fixed maturities - AFS - Life Funds Withheld Assets	\$2,230,757	\$613,049	\$—	\$2,843,806	\$—
Total investments - AFS	\$31,791,300	\$1,772,336	\$(220,818)	\$33,342,818	\$(53,613)

(1) Represents the non-credit component of OTTI losses, adjusted for subsequent sales of securities. It does not include the change in fair value subsequent to the impairment measurement date.



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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 (U.S. dollars in thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-credit Related OTTI (1)
Fixed maturities - AFS - Excluding Life Funds					
Withheld Assets					
U.S. Government	\$5,047,621	\$52,355	\$(34,339)	\$5,065,637	\$—
Corporate - Financials	3,535,830	49,535	(23,456)	3,561,909	—
Corporate - Non Financials	6,867,525	130,568	(97,646)	6,900,447	—
RMBS – Agency	3,697,756	77,776	(17,561)	3,757,971	—
RMBS – Non-Agency	319,876	25,644	(16,980)	328,540	(54,200)
CMBS	401,713	7,933	(4,330)	405,316	(1,182)
CDOs	41,679	4	(9,273)	32,410	(1,208)
Other asset-backed securities	1,164,426	17,665	(13,519)	1,168,572	(1,144)
U.S. States and political subdivisions of the States	2,514,048	125,395	(7,373)	2,632,070	—
Non-U.S. Government	5,249,148	100,383	(97,917)	5,251,614	—
Total fixed maturities - AFS - Excluding Life Funds	\$28,839,622	\$587,258	\$(322,394)	\$29,104,486	\$(57,734)
Withheld Assets					
Total short-term investments - Excluding Life Funds	618,851	967	(2,428)	617,390	—
Withheld Assets					
Total equity securities - Excluding Life Funds	834,079	89,993	(45,153)	878,919	—
Withheld Assets					
Total investments - AFS - Excluding Life Funds	\$30,292,552	\$678,218	\$(369,975)	\$30,600,795	\$(57,734)
Withheld Assets					
Fixed maturities - AFS - Life Funds Withheld Assets					
U.S. Government	\$10,721	\$2,021	\$—	\$12,742	\$—
Corporate - Financials	531,016	67,220	—	598,236	—
Corporate - Non Financials	1,132,926	175,702	—	1,308,628	—
RMBS – Agency	591	161	—	752	—
RMBS – Non-Agency	24,401	2,552	—	26,953	—
CMBS	107,968	14,513	—	122,481	—
Other asset-backed securities	132,674	17,121	—	149,795	—
Non-U.S. Governments	737,735	195,781	—	933,516	—
Total fixed maturities - AFS - Life Funds Withheld Assets	\$2,678,032	\$475,071	\$—	\$3,153,103	\$—
Total investments - AFS	\$32,970,584	\$1,153,289	\$(369,975)	\$33,753,898	\$(57,734)

(1) Represents the non-credit component of OTTI losses, adjusted for subsequent sales of securities. It does not include the change in fair value subsequent to the impairment measurement date.

The cost (amortized cost for fixed maturities and short-term investments) and fair value of the Company's Trading investments at December 31, 2016 and 2015 were as follows:

June 30, 2016 (U.S. dollars in thousands)	Amortized Cost	Fair Value
Fixed maturities - Trading - Life Funds Withheld Assets		
U.S. Government	\$17,827	\$18,570
Corporate - Financials	400,872	416,325
Corporate - Non Financials	558,059	592,848
RMBS – Agency	1,844	1,868



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RMBS – Non-Agency	190	197
CMBS	4,970	5,223
CDO	—	—
Other asset-backed securities	24,858	25,965
U.S. States and political subdivisions of the States	—	—
Non-U.S. Governments	376,968	417,411
Total fixed maturities - Trading - Life Funds Withheld Assets	\$ 1,385,588	\$ 1,478,407
Total short-term investments - Trading - Life Funds Withheld Assets	\$ 18,495	\$ 18,499
Total investments - Trading - Life Funds Withheld Assets	\$ 1,404,083	\$ 1,496,906

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## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 (U.S. dollars in thousands)	Amortized Cost	Fair Value
Fixed maturities - Trading - Life Funds Withheld Assets		
U.S. Government	\$4,957	\$4,990
Corporate - Financials	344,070	335,956
Corporate - Non Financials	509,441	493,621
RMBS – Agency	370	368
CMBS	4,874	4,803
Other asset-backed securities	26,405	25,700
Non-U.S. Governments	373,492	370,261
Total fixed maturities - Trading - Life Funds Withheld Assets	\$1,263,609	\$1,235,699
Total short-term investments - Trading - Life Funds Withheld Assets	\$60,176	\$60,330
Total investments - Trading - Life Funds Withheld Assets	\$1,323,785	\$1,296,029

As of June 30, 2016 and December 31, 2015, approximately 2.3% and 2.0%, respectively, of the Company's fixed income investment portfolio at fair value, excluding Life Funds Withheld Assets, was invested in securities that were below investment grade or not rated. Approximately 14.2% and 14.7% of the gross unrealized losses in the Company's fixed income investment portfolio, excluding Life Funds Withheld Assets, as of June 30, 2016 and December 31, 2015, respectively, related to securities that were below investment grade or not rated.

## Contractual Maturities Summary

The contractual maturities of AFS fixed income securities as of June 30, 2016 and December 31, 2015 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(U.S. dollars in thousands)	June 30, 2016		December 31, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Fixed maturities - AFS - Excluding Life Funds Withheld Assets				
Due less than one year	\$1,971,202	\$1,960,971	\$2,106,851	\$2,104,106
Due after 1 through 5 years	12,992,741	13,266,292	14,051,494	14,143,461
Due after 5 through 10 years	5,733,195	6,008,825	5,680,830	5,740,954
Due after 10 years	1,521,594	1,694,793	1,374,997	1,423,156
	\$22,218,732	\$22,930,881	\$23,214,172	\$23,411,677
RMBS – Agency	4,330,183	4,455,630	3,697,756	3,757,971
RMBS – Non-Agency	287,736	288,815	319,876	328,540
CMBS	270,546	278,314	401,713	405,316
CDOs	21,437	17,800	41,679	32,410
Other asset-backed securities	1,030,209	1,043,478	1,164,426	1,168,572
Total mortgage and asset-backed securities	\$5,940,111	\$6,084,037	\$5,625,450	\$5,692,809
Total fixed maturities - AFS - Excluding Life Funds Withheld Assets	\$28,158,843	\$29,014,918	\$28,839,622	\$29,104,486
Fixed maturities - AFS - Life Funds Withheld Assets				
Due less than one year	\$87,483	\$97,965	\$81,700	\$92,921
Due after 1 through 5 years	327,255	357,289	386,810	416,743
Due after 5 through 10 years	427,845	509,997	491,621	558,805
Due after 10 years	1,181,136	1,630,801	1,452,267	1,784,653
	\$2,023,719	\$2,596,052	\$2,412,398	\$2,853,122
RMBS – Agency	545	686	591	752
RMBS – Non-Agency	21,384	24,252	24,401	26,953

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CMBS	86,373	105,019	107,968	122,481
Other asset-backed securities	98,736	117,797	132,674	149,795
Total mortgage and asset-backed securities	\$207,038	\$247,754	\$265,634	\$299,981
Total fixed maturities - AFS - Life Funds Withheld Assets	\$2,230,757	\$2,843,806	\$2,678,032	\$3,153,103
Total fixed maturities - AFS	\$30,389,600	\$31,858,724	\$31,517,654	\$32,257,589

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## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(U.S. dollars in thousands)	June 30, 2016		December 31, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Fixed maturities - Trading - Life Funds Withheld Assets				
Due less than one year	\$ 15,713	\$ 16,587	\$ 4,573	\$ 5,096
Due after 1 through 5 years	335,915	339,896	278,163	272,220
Due after 5 through 10 years	336,150	350,397	280,487	277,920
Due after 10 years	665,949	738,274	668,737	649,592
	\$ 1,353,727	\$ 1,445,154	\$ 1,231,960	\$ 1,204,828
RMBS – Agency	1,844	1,868	370	368
RMBS – Non-Agency	190	197	—	—
CMBS	4,970	5,223	4,874	4,803
Other asset-backed securities	24,858	25,965	26,405	25,700
Total mortgage and asset-backed securities	\$ 31,862	\$ 33,253	\$ 31,649	\$ 30,871
Total fixed maturities - Trading - Life Funds Withheld Assets	\$ 1,385,589	\$ 1,478,407	\$ 1,263,609	\$ 1,235,699

## Pledged Assets

Certain of the Company's invested assets are held in trust and pledged in support of insurance and reinsurance liabilities as well as credit facilities. Such pledges are largely required by the Company's operating subsidiaries that are "non-admitted" under U.S. state insurance regulations, in order for the U.S. cedant to receive statutory credit for reinsurance. Also included are Life Funds Withheld Assets as noted in Note 1, "Basis of Preparation and Consolidation." Additionally, certain deposit liabilities and annuity contracts require the use of pledged assets. As of June 30, 2016 and December 31, 2015, the Company had \$19.0 billion and \$18.3 billion in pledged assets, respectively.

## (b) Gross Unrealized Losses

The following is an analysis of how long the AFS securities as of June 30, 2016 and December 31, 2015 had been in a continual unrealized loss position:

June 30, 2016 (U.S. dollars in thousands)	Less than 12 months		Equal to or greater than 12 months	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities and short-term investments - AFS				
U.S. Government	\$ 223,236	\$ (1,711 )	\$ 49,239	\$ (1,541 )
Corporate – Financials	350,614	(19,762 )	115,843	(7,573 )
Corporate – Non Financials	432,713	(27,422 )	269,682	(27,207 )
RMBS – Agency	249,152	(742 )	211,310	(1,658 )
RMBS – Non-Agency	30,747	(995 )	172,556	(17,071 )
CMBS	19,125	(789 )	38,044	(2,321 )
CDOs	12,476	(440 )	5,317	(3,200 )
Other asset-backed securities	285,791	(1,296 )	93,287	(8,164 )
U.S. States and political subdivisions of the States	38,476	(1,157 )	10,152	(101 )
Non-U.S. Governments	856,460	(43,696 )	328,900	(33,549 )
Total fixed maturities and short-term investments - AFS	\$ 2,498,790	\$ (98,010 )	\$ 1,294,330	\$ (102,385 )
Total equity securities	\$ 293,337	\$ (20,423 )	\$ —	\$ —



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December 31, 2015 (U.S. dollars in thousands)	Less than 12 months		Equal to or greater than 12 months	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities and short-term investments - AFS				
U.S. Government	\$3,762,869	\$(29,339 )	\$89,113	\$(5,044 )
Corporate – Financials	1,641,021	(13,280 )	102,022	(10,192 )
Corporate – Non Financials	3,275,270	(73,069 )	227,527	(24,706 )
RMBS – Agency	1,065,055	(10,046 )	221,211	(7,515 )
RMBS – Non-Agency	19,614	(1,104 )	180,146	(15,876 )
CMBS	118,605	(1,561 )	78,651	(2,769 )
CDOs	12,311	(516 )	20,096	(8,757 )
Other asset-backed securities	572,671	(5,252 )	57,563	(8,268 )
U.S. States and political subdivisions of the States	565,055	(6,609 )	12,259	(765 )
Non-U.S. Governments	1,921,286	(53,440 )	474,929	(46,714 )
Total fixed maturities and short-term investments - AFS	\$12,953,757	\$(194,216)	\$1,463,517	\$(130,606)
Total equity securities	\$356,742	\$(45,153 )	\$—	\$—

The Company had gross unrealized losses totaling \$220.8 million on 1,643 securities out of a total of 8,773 held as of June 30, 2016 in its AFS - Excluding Life Funds Withheld Assets portfolio, which either it considers to be temporarily impaired or with respect to which it reflects non-credit losses on other-than-temporarily impaired assets. Individual security positions comprising this balance have been evaluated by management, in conjunction with our investment managers to determine the severity of these impairments and whether they should be considered other-than-temporary. Management believes it is more likely than not that the issuer will be able to fund sufficient principal and interest payments to support the current amortized cost.

## (c) Net Realized Gains (Losses)

The following represents an analysis of net realized gains (losses) on investments:

Net Realized Gains (Losses) on Investments (U.S. dollars in thousands)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net realized gains (losses) on investments - excluding Life Funds Withheld Assets:				
Gross realized gains	\$82,177	\$48,547	\$143,404	\$110,845
Gross realized losses on investments sold	(30,187 )	(27,608 )	(80,250 )	(74,728 )
OTTI on investments, net of amounts transferred to other comprehensive income	(32,522 )	(16,588 )	(52,102 )	(27,164 )
	\$19,468	\$4,351	\$11,052	\$8,953
Net realized gains (losses) on investments and net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets:				
Gross realized gains	\$33,670	\$84,641	\$96,520	\$137,769
Gross realized losses on investments sold	(3,556 )	(16,604 )	(31,990 )	(16,994 )
OTTI on investments, net of amounts transferred to other comprehensive income	(252 )	(2,878 )	(2,598 )	(8,087 )
Net unrealized gains (losses) on trading securities	\$55,287	\$(19,543)	\$124,383	\$(18,783 )
	\$85,149	\$45,616	\$186,315	\$93,905
Total net realized gains (losses) on investments	\$104,617	\$49,967	\$197,367	\$102,858

The components of the net impairment charges of \$32.5 million for investments excluding Life Funds Withheld Assets for the three months ended June 30, 2016 were:

\$15.0 million related to certain equities that we no longer intend to hold for a period sufficient to recover their fair value to cost.

\$8.3 million related to certain equities that were in a loss position for more than 11 months or impaired by more than 50% of their amortized cost.

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\$1.0 million for structured securities, where we determined that the likely recovery on these securities was below the carrying value and, accordingly, recorded an impairment of the securities to the discounted value of the cash flows expected to be received on these securities.

\$0.9 million related to certain hedge funds that were in a loss position for more than 11 months.

\$0.5 million related to certain high yield securities where we determined that the likely recovery on these securities was below the carrying value.

\$6.8 million related to foreign exchange losses.

The following table sets forth the amount of credit loss impairments on fixed income securities for which a portion of the OTTI loss was recognized in OCI and that were held by the Company as of the dates or for the periods indicated and the corresponding changes in such amounts.

Credit Loss Impairments (U.S. dollars in thousands)	Three months ended		Six months ended	
	June 30, 2016	2015	June 30, 2016	2015
Opening balance as of beginning of indicated period	\$76,979	\$108,458	\$73,469	\$131,942
Credit loss impairment recognized in the current period on securities not previously impaired	668	—	11,237	7,560
Credit loss impairments previously recognized on securities that matured or were paid down, prepaid or sold during the period	(2,938 )	(8,495 )	(7,818 )	(37,034 )
Credit loss impairments previously recognized on securities impaired to fair value during the period	—	(2,629 )	—	(2,629 )
Additional credit loss impairments recognized in the current period on securities previously impaired	873	246	1,103	387
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(2,191 )	(3,361 )	(4,600 )	(6,007 )
Balance as of June 30,	\$73,391	\$94,219	\$73,391	\$94,219

## 7. Derivative Instruments

The Company enters into derivative instruments for both risk management and efficient portfolio management. The Company is exposed to potential loss from various market risks, and manages its market risks based on the Authorities Framework and other guidelines established by management and the Risk and Finance Committee of the Company's Board of Directors. The Company recognizes all derivatives as either assets or liabilities on the balance sheets and measures those instruments at fair value, with the changes in the fair value of derivatives shown in the consolidated statement of income as "Net realized and unrealized gains (losses) on derivative instruments" unless the derivatives are designated as hedging instruments. The accounting for derivatives that are designated as hedging instruments is described in Item 8, Note 2(h), "Significant Accounting Policies - Derivative Instruments," to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.



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The following table summarizes information on the location and gross amounts of derivative fair values contained in the consolidated balance sheets as of June 30, 2016 and December 31, 2015:

(U.S. dollars in thousands)	June 30, 2016				December 31, 2015			
	Asset Derivative Notional Amount	Asset Derivative Fair Value (1)	Liability Derivative Notional Amount	Liability Derivative Fair Value (1)	Asset Derivative Notional Amount	Asset Derivative Fair Value (1)	Liability Derivative Notional Amount	Liability Derivative Fair Value (1)
Derivatives designated as hedging instruments:								
Foreign exchange contracts	\$2,069,619	\$ 52,651	\$ 350,908	\$ 9,339	\$1,667,585	\$ 64,289	\$ 674,976	\$ 11,941
Total derivatives designated as hedging instruments	\$2,069,619	\$ 52,651	\$ 350,908	\$ 9,339	\$1,667,585	\$ 64,289	\$ 674,976	\$ 11,941
Derivatives not designated as hedging instruments:								
Investment Related Derivatives:								
Interest rate exposure	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Foreign exchange exposure	46,308	2,296	199,105	8,778	102,234	2,888	144,707	1,702
Credit exposure	5,000	365	70,682	11,394	8,433	652	71,614	12,067
Financial market exposure	5	5	30,117	2,870	37	77	26,500	417
Other Non-Investment Derivatives:								
Foreign exchange contracts	106,402	6,892	—	—	194,566	2,009	—	—
Credit exposure	—	—	30,669	13	29,874	31	—	—
Guaranteed minimum income benefit contract	46,662	19,600	46,662	19,600	46,032	19,368	46,032	19,368
Modified coinsurance funds withheld contracts (2)	59,928	—	4,493,884	—	60,667	—	—	—