

XL GROUP PLC
Form 10-Q
August 08, 2012

**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, 2012

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

Public Limited Company

(Exact name of registrant as specified in its charter)

Ireland
(State or other jurisdiction of
incorporation or organization)

98-0665416
(I.R.S. Employer Identification No.)

No. 1 Hatch Street Upper, 4th Floor, Dublin 2, Ireland
(Address of principal executive offices and zip code)
+353 (1) 405-2033
(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):

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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 6, 2012, there were 305,705,727 outstanding Ordinary Shares, \$0.01 par value per share, of the registrant.

XL GROUP PLC

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

XL GROUP PLC

UNAUDITED CONSOLIDATED BALANCE SHEETS

<i>(U.S. dollars in thousands, except share data)</i>	June 30, 2012	December 31, 2011
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost: 2012: \$25,442,779; 2011: \$25,771,715)	\$ 26,242,802	\$ 26,190,025
Equity securities, at fair value (cost: 2012: \$553,715; 2011: \$480,685)	529,056	468,197
Short-term investments, at fair value (amortized cost: 2012: \$227,321; 2011: \$359,378)	227,380	359,063
Total investments available for sale	\$ 26,999,238	\$ 27,017,285
Fixed maturities, held to maturity at amortized cost (fair value: 2012: \$3,006,992; 2011: \$2,895,688)	2,716,357	2,668,978
Investments in affiliates	1,024,353	1,052,729
Other investments	1,208,220	985,262
Total investments	\$ 31,948,168	\$ 31,724,254
Cash and cash equivalents	3,311,146	3,825,125
Accrued investment income	323,898	331,758
Deferred acquisition costs	723,597	647,113
Ceded unearned premiums	744,548	596,895
Premiums receivable	3,107,931	2,411,611
Reinsurance balances receivable	223,187	220,017
Unpaid losses and loss expenses recoverable	3,342,628	3,654,948
Receivable from investments sold	57,549	59,727
Goodwill and other intangible assets	405,516	407,321
Deferred tax asset	132,508	115,601
Other assets	619,480	670,895
Total assets	\$ 44,940,156	\$ 44,665,265
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Unpaid losses and loss expenses	\$ 19,961,950	\$ 20,613,901
Deposit liabilities	1,600,595	1,608,108
Future policy benefit reserves	4,740,907	4,845,394
Unearned premiums	4,231,975	3,555,310
Notes payable and debt	1,673,921	2,275,327
Reinsurance balances payable	516,886	90,552
Payable for investments purchased	51,683	58,494
Deferred tax liability	154,497	91,104
Other liabilities	793,940	770,945
Total liabilities	\$ 33,726,354	\$ 33,909,135
Commitments and Contingencies		
Shareholders' Equity:		
Ordinary shares, 999,990,000 authorized, par value \$0.01; issued and outstanding: (2012: 305,692,155; 2011: 315,645,796)	\$ 3,057	\$ 3,156

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Additional paid in capital	8,738,204	8,938,679
Accumulated other comprehensive income	910,760	583,064
Retained earnings (deficit)	215,788	(113,241)
Shareholders' equity attributable to XL Group plc	\$ 9,867,809	\$ 9,411,658
Non-controlling interest in equity of consolidated subsidiaries	1,345,993	1,344,472
Total shareholders' equity	\$ 11,213,802	\$ 10,756,130
Total liabilities and shareholders' equity	\$ 44,940,156	\$ 44,665,265

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<i>(U.S. dollars in thousands, except per share data)</i>				
Revenues:				
Net premiums earned	\$ 1,486,595	\$ 1,398,339	\$ 2,923,013	\$ 2,759,722
Net investment income	262,631	296,505	527,873	576,768
Realized investment gains (losses):				
Net realized gains (losses) on investments sold	15,800	17,632	57,568	(11,360)
Other-than-temporary impairments on investments	(16,168)	(40,088)	(34,733)	(73,808)
Other-than-temporary impairments on investments transferred to (from) other comprehensive income	(12,025)	12,912	(14,425)	9,187
Total net realized gains (losses) on investments	\$ (12,393)	\$ (9,544)	\$ 8,410	\$ (75,981)
Net realized and unrealized gains (losses) on derivative instruments	(4,300)	(10,950)	(3,598)	(7,383)
Income (loss) from investment fund affiliates	3,097	10,250	22,505	37,400
Fee income and other	11,109	10,582	20,968	19,514
Total revenues	\$ 1,746,739	\$ 1,695,182	\$ 3,499,171	\$ 3,310,040
Expenses:				
Net losses and loss expenses incurred	\$ 826,355	\$ 823,584	\$ 1,680,420	\$ 2,032,449
Claims and policy benefits	131,150	137,416	252,457	270,647
Acquisition costs	218,937	215,099	443,088	403,589
Operating expenses	299,052	266,142	581,463	527,134
Exchange (gains) losses	(17,976)	(8,498)	(5,258)	1,016
Interest expense	57,360	55,099	96,658	109,246
Total expenses	\$ 1,514,878	\$ 1,488,842	\$ 3,048,828	\$ 3,344,081
Income (loss) before income tax and income (loss) from operating affiliates	\$ 231,861	\$ 206,340	\$ 450,343	\$ (34,041)
Income (loss) from operating affiliates	22,561	46,251	38,814	59,887
Provision (benefit) for income tax	29,812	24,826	51,362	(7,971)
Net income (loss)	\$ 224,610	\$ 227,765	\$ 437,795	\$ 33,817
Non-controlling interests	(3,454)	(2,102)	(40,011)	(35,438)
Net income (loss) attributable to XL Group plc and ordinary shareholders	\$ 221,156	\$ 225,663	\$ 397,784	\$ (1,621)
Weighted average ordinary shares and ordinary share equivalents outstanding basic	309,765	309,184	312,442	310,325
Weighted average ordinary shares and ordinary share equivalents outstanding diluted	312,435	341,989	315,010	310,325
Earnings (loss) per ordinary share and ordinary share equivalent basic	\$ 0.71	\$ 0.73	\$ 1.27	\$ (0.01)
	\$ 0.71	\$ 0.69	\$ 1.26	\$ (0.01)

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Earnings (loss) per ordinary share and ordinary share
equivalent diluted

See accompanying Notes to Unaudited Consolidated Financial Statements

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XL GROUP PLC

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<i>(U.S. dollars in thousands)</i>				
Net income (loss) attributable to XL Group plc	\$ 221,156	\$ 225,663	\$ 397,784	\$ (1,621)
Change in net unrealized gains (losses) on investments, net of tax	109,333	167,827	321,657	181,206
Change in net unrealized gains (losses) on affiliate and other investments, net of tax	1,333	8,431	16,383	32,666
Change in OTTI losses recognized in other comprehensive income, net of tax	13,996	(1,183)	26,417	24,124
Change in underfunded pension liability	167	(53)	(7)	(397)
Change in value of cash flow hedge	110	110	220	220
Foreign currency translation adjustments	(45,695)	72,741	(36,974)	84,357
Comprehensive income (loss)	\$ 300,400	\$ 473,536	\$ 725,480	\$ 320,555

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC

UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	Six Months Ended June 30,	
<i>(U.S. dollars in thousands)</i>	2012	2011
Ordinary Shares:		
Balance - beginning of year	\$ 3,156	\$ 3,165
Issuance of ordinary shares	9	3
Buybacks of ordinary shares	(109)	(116)
Exercise of stock options	1	-
Balance - end of period	\$ 3,057	\$ 3,052
Additional Paid in Capital:		
Balance - beginning of year	\$ 8,938,679	\$ 8,993,016
Issuance of ordinary shares	1,376	976
Buybacks of ordinary shares	(225,869)	(258,787)
Exercise of stock options, net of tax	1,349	1,087
Share based compensation expense	22,669	20,008
Balance - end of period	\$ 8,738,204	\$ 8,756,300
Accumulated Other Comprehensive Income (Loss):		
Balance - beginning of year	\$ 583,064	\$ 100,795
Change in net unrealized gains (losses) on investments, net of tax	321,657	181,206
Change in net unrealized gains (losses) on affiliate and investments, net of tax	16,383	32,666
Change in OTTI losses recognized in other comprehensive income, net of tax	26,417	24,124
Change in underfunded pension liability	(7)	(397)
Change in value of cash flow hedge	220	220
Foreign currency translation adjustments	(36,974)	84,357
Balance - end of period	\$ 910,760	\$ 422,971
Retained Earnings (Deficit):		
Balance - beginning of year	\$ (113,241)	\$ 500,497
Net income attributable to XL Group plc	397,784	(1,621)
Dividends on ordinary shares	(68,755)	(68,529)
Balance - end of period	\$ 215,788	\$ 430,347
Non-controlling Interest in Equity of Consolidated Subsidiaries:		
Balance - beginning of year	\$ 1,344,472	\$ 1,002,296
Non-controlling interests - contribution	1,500	-
Non-controlling interests	(12)	1
Non-controlling interest share in change in accumulated other comprehensive income (loss)	33	(16)
Purchase of Series E preference ordinary shares	-	(500)
Balance - end of period	\$ 1,345,993	\$ 1,001,781
Total Shareholders Equity	\$ 11,213,802	\$ 10,614,451

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
<i>(U.S. dollars in thousands)</i>	2012	2011
Cash flows provided by (used in) operating activities:		
Net income (loss)	\$ 437,795	\$ 33,817
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Net realized (gains) losses on investments	(8,410)	75,981
Net realized and unrealized (gains) losses on derivative instruments	3,598	7,383
Amortization of premiums (discounts) on fixed maturities	75,240	42,939
(Income) loss from investment and operating affiliates	(61,319)	(97,287)
Share based compensation	27,795	22,872
Depreciation	27,479	24,248
Accretion of deposit liabilities	49,852	40,281
Unpaid losses and loss expenses	(531,503)	67,088
Future policy benefit reserves	(88,679)	(61,147)
Unearned premiums	718,750	622,665
Premiums receivable	(739,817)	(652,203)
Unpaid losses and loss expenses recoverable	300,429	57,390
Ceded unearned premiums	(153,792)	(184,010)
Reinsurance balances receivable	(4,959)	37,536
Deferred acquisition costs	(60,901)	(79,060)
Reinsurance balances payable	427,573	279,074
Deferred tax asset - net	22,328	(51,297)
Derivatives	28,383	(46,619)
Other assets	26,077	38,458
Other liabilities	17,389	(95,299)
Other	(29,712)	24,517
Total adjustments	\$ 45,801	\$ 73,510
Net cash provided by (used in) operating activities	\$ 483,596	\$ 107,327
Cash flows provided by (used in) investing activities:		
Proceeds from sale of fixed maturities and short-term investments	\$ 1,972,342	\$ 2,489,705
Proceeds from redemption of fixed maturities and short-term investments	2,280,398	1,325,898
Proceeds from sale of equity securities	123,181	157,727
Purchases of fixed maturities and short-term investments	(4,093,947)	(3,527,609)
Purchases of equity securities	(197,653)	(381,918)
Net dispositions of investment affiliates	38,437	11,684
Other investments, net	(128,281)	8,877
Net cash provided by (used in) investing activities	\$ (5,523)	\$ 84,364
Cash flows provided by (used in) financing activities:		
Proceeds from issuance of ordinary shares and exercise of stock options	\$ 1,214	\$ 1,089
Buybacks of ordinary shares	(225,978)	(258,903)
Dividends paid on ordinary shares	(68,315)	(68,073)
Distributions to non-controlling interests	(39,930)	(35,599)
Contribution from non-controlling interest	1,500	-
Repayment of debt	(600,000)	-
Deposit liabilities	(56,910)	(52,565)

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Net cash provided by (used in) financing activities	\$	(988,419)	\$	(414,051)
Effects of exchange rate changes on foreign currency cash		(3,633)		58,834
Increase (decrease) in cash and cash equivalents	\$	(513,979)	\$	(163,526)
Cash and cash equivalents - beginning of period		3,825,125		3,022,868
Cash and cash equivalents - end of period	\$	3,311,146	\$	2,859,342

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation and Consolidation

Unless the context otherwise indicates, references herein to the Company include XL Group plc and its consolidated subsidiaries.

These unaudited consolidated financial statements include the accounts of the Company and all of its subsidiaries 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 were 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 (consisting of normal recurring accruals) 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 and disclosure of 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.

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

Recent Accounting Pronouncements

In October 2010, the FASB issued an accounting standards update to address disparities in practice regarding the interpretation of which costs relating to the acquisition of new and renewal insurance contracts qualify for deferral. The provisions of the guidance specify that only costs that are related directly to the successful acquisition of new and renewal insurance contracts may be capitalized. These include incremental direct costs of contract acquisition and certain other costs related directly to underwriting activities. Incremental direct costs of contract acquisition are those that result directly from and are essential to a contract transaction, and would not have been incurred by the insurance entity had the transaction not occurred. Administrative costs, rent, depreciation, occupancy, equipment and all other general overhead costs are considered indirect costs and should be charged to expense as incurred. On January 1, 2012, the Company adopted this guidance on a retrospective basis for all fiscal years presented, and interim periods within those years. The impact of adoption was a reduction in deferred acquisition costs of approximately \$21 million, a reduction in deferred tax liabilities of approximately \$7 million, and a corresponding reduction in opening retained earnings of approximately \$14 million within the Company's December 31, 2011 balance sheet. The adoption of this guidance did not have an impact on the Company's consolidated statements of income or comprehensive income.

In May 2011, the FASB issued an accounting standards update to amend existing requirements for fair value measurements and disclosures. The guidance expands the disclosure requirements around fair value measurements categorized in Level 3 of the fair value hierarchy, requiring quantitative and qualitative information to be disclosed related to: (1) the valuation processes used, (2) the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, and (3) use of a nonfinancial asset in a way that differs from the asset's highest and best use. The guidance requires disclosure of the level in the fair value hierarchy of items that are not measured at fair value, but whose fair value must be disclosed. It also clarifies and expands upon existing requirements for fair value measurements of financial assets and liabilities, as well as instruments classified in shareholders' equity. The Company has adopted this guidance from January 1, 2012; however, it impacted disclosure only and did not have an impact on the Company's financial condition or results of operations. See Note 3, Fair Value Measurements, for these updated disclosures.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

2. Significant Accounting Policies

In June 2011, the FASB issued an accounting standards update concerning the presentation of comprehensive income in financial statements. This guidance allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Under both options, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This guidance eliminates the option to present the components of other comprehensive income only as part of the statement of changes in shareholders' equity. The guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. However, a separate accounting standards update issued in December 2011 deferred indefinitely a provision within the original standard requiring entities to present components of reclassifications of other comprehensive income on the face of the income statement. The Company adopted the guidance from January 1, 2012; however, it did not have an impact on the Company's disclosure, financial condition or results of operations.

In September 2011, the FASB issued an accounting standards update to simplify how entities test goodwill for impairment, by allowing an entity the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting entity is less than its carrying amount, as a basis for determining whether it is necessary to perform the two-step goodwill impairment test required in FASB Accounting Standards Codification Topic 350. After assessing the circumstances that should be considered in making the qualitative assessment, if an entity determines that the fair value of a reporting unit as compared to its carrying value meets the threshold, then performing the two-step impairment test is unnecessary. In other circumstances, performance of the two-step test is required. The guidance also eliminates the option for an entity to carry forward its detailed calculation of a reporting unit's fair value in certain situations. The amendments do not change the current guidance for testing other indefinite-lived intangible assets for impairment. The Company adopted this guidance from January 1, 2012. It did not have an impact on the Company's consolidated financial condition or results of operations.

3. 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 its third party valuation sources to assess if 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, which are subjected to automated tolerance checks, quarterly reviews of the valuation sources and dates, and monthly reconciliations between the valuations provided by our external parties and valuations provided by our third party investment managers at a portfolio level.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value Measurements

Where broker quotes are the primary source of the valuations, sufficient information regarding 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 a reasonable estimate of the fair value.

For further information, see Item 8, Note 2, Significant Accounting Policies, to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

(a) Fair Value Summary

The following tables set forth the Company's assets and liabilities that were accounted for at fair value at June 30, 2012 and December 31, 2011 by level within the fair value hierarchy:

June 30, 2012 (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, 2012
Assets					
U.S. Government and Government - Related/Supported	\$ -	\$ 2,101,625	\$ -	\$ -	\$ 2,101,625
Corporate (1) (2)	-	9,687,642	33,511	-	9,721,153
Residential mortgage-backed securities - Agency (RMBS - Agency)	-	5,149,725	52,588	-	5,202,313
Residential mortgage-backed securities Non-Agency (RMBS - Non-Agency)	-	582,947	1,596	-	584,543
Commercial mortgage-backed securities (CMBS)	-	904,792	-	-	904,792
Collateralized debt obligations (CDO)	-	7,839	642,179	-	650,018
Other asset-backed securities (2)	-	1,382,490	25,248	-	1,407,738
U.S. States and political subdivisions of the States	-	1,764,431	-	-	1,764,431
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	-	3,906,189	-	-	3,906,189
Total fixed maturities, at fair value	\$ -	\$ 25,487,680	\$ 755,122	\$ -	\$ 26,242,802
Equity securities, at fair value (3)	273,427	255,629	-	-	529,056
Short-term investments, at fair value (1)(4)	-	227,380	-	-	227,380
Total investments available for sale	\$ 273,427	\$ 25,970,689	\$ 755,122	\$ -	\$ 26,999,238
Cash equivalents (5)	1,750,569	710,712	-	-	2,461,281
Other investments (6)	-	776,438	117,765	-	894,203
Other assets (7)	-	178,104	-	(124,674)	53,430
Total assets accounted for at fair value	\$ 2,023,996	\$ 27,635,943	\$ 872,887	\$ (124,674)	\$ 30,408,152
Liabilities					

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Financial instruments sold, but not yet purchased (8)	\$	-	\$ 28,198	\$	-	\$	-	\$ 28,198
Other liabilities (7)		-	10,578		35,947		-	46,525
Total liabilities accounted for at fair value	\$	-	\$ 38,776	\$	35,947	\$	-	\$ 74,723

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value Measurements

December 31, 2011 (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, 2011
Assets					
U.S. Government and Government - Related/Supported	\$ -	\$ 1,990,983	\$ -	\$ -	\$ 1,990,983
Corporate (1) (2)	-	10,084,804	23,818	-	10,108,622
RMBS Agency	-	5,347,365	32,041	-	5,379,406
RMBS Non-Agency	-	641,815	-	-	641,815
CMBS	-	974,835	-	-	974,835
CDO	-	7,751	650,851	-	658,602
Other asset-backed securities (2)	-	1,323,697	16,552	-	1,340,249
U.S. States and political subdivisions of the States	-	1,797,378	-	-	1,797,378
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	-	3,298,135	-	-	3,298,135
Total fixed maturities, at fair value (2)	\$ -	\$ 25,466,763	\$ 723,262	\$ -	\$ 26,190,025
Equity securities, at fair value (3)	239,175	229,022	-	-	468,197
Short-term investments, at fair value (1)(4)	-	359,063	-	-	359,063
Total investments available for sale	\$ 239,175	\$ 26,054,848	\$ 723,262	\$ -	\$ 27,017,285
Cash equivalents (5)	1,686,101	1,068,264	-	-	2,754,365
Other investments (6)	-	547,598	113,959	-	661,557
Other assets (7)	-	143,622	-	(77,888)	65,734
Total assets accounted for at fair value	\$ 1,925,276	\$ 27,814,332	\$ 837,221	\$ (77,888)	\$ 30,498,941
Liabilities					
Financial instruments sold, but not yet purchased (8)	\$ -	\$ 20,844	\$ -	\$ -	\$ 20,844
Other liabilities (7)	-	16,871	42,644	(809)	58,706
Total liabilities accounted for at fair value	\$ -	\$ 37,715	\$ 42,644	\$ (809)	\$ 79,550

- (1) Included within Corporate are certain medium term notes supported primarily by pools of European investment grade credit with varying degrees of leverage. The notes, which are in a gross unrealized loss position, had a fair value of \$186.1 million and \$266.0 million and an amortized cost of \$199.1 million and \$297.7 million at June 30, 2012 and December 31, 2011, respectively. These notes allow the investor to participate in cash flows of the underlying bonds including certain residual values, which could serve to either decrease or increase the ultimate values of these notes.
- (2) The Company invests in covered bonds issued by financial institutions (Covered Bonds). Covered Bonds are senior secured debt instruments issued by financial institutions and backed by over-collateralized pools of public sector or mortgage loans. At June 30, 2012, Covered Bonds within Total fixed maturities with a fair value of \$500.5 million are included within Other asset-backed securities to align the Company's classification to market indices. At December 31, 2011, Covered Bonds within Total fixed maturities with a fair value of \$353.9 million were reclassified from Corporate to Other asset-backed securities to conform to current period presentation.

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- (3) Included within Equity securities are investments in fixed income funds with a fair value of \$95.8 million and \$91.6 million at June 30, 2012 and December 31, 2011, respectively.
- (4) Short-term investments consist primarily of Corporate securities and U.S. Government and Government-Related/Supported securities.
- (5) Cash equivalents balances subject to fair value measurement include certificates of deposit and money market funds. Operating cash balances are not subject to fair value measurement guidance.
- (6) The Other investments balance excludes certain structured transactions including certain investments in project finance transactions, a payment obligation and liquidity financing provided to a structured credit vehicle as a part of a third party medium term note facility. These investments that totaled \$314.0 million at June 30, 2012 and \$323.7 million at December 31, 2011 are carried at amortized cost. For further details regarding the nature of Other investments and related features see Item 8, Note 7, Other Investments, to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011
- (7) 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 Company often enters into different types of derivative contracts with a single counterparty and these contracts are covered under a netting agreement. In addition, the Company held net cash collateral related to derivative positions of approximately \$124.7 million and \$77.1 million at June 30, 2012 and December 31, 2011, respectively. This balance is included within cash and cash equivalents and the corresponding liability to return the collateral has been offset against the derivative positions within the balance sheet as appropriate under the netting agreement. The fair values of the individual derivative contracts are reported gross in their respective levels based on the fair value hierarchy.
- (8) Financial instruments sold, but not yet purchased, represent short sales and are included within Payable for investments purchased on the balance sheet.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value Measurements

(b) Level 3 Gains and Losses

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 reflect gains and losses for the three and six months ended June 30, 2012 and 2011 for all financial assets and liabilities categorized as Level 3 at June 30, 2012 and 2011, 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, 2012 and 2011. 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.

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 primarily 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 observable inputs, or other valuations sourced from brokers that are considered Level 3.

There were no transfers between Level 1 and Level 2 during the three and six month periods ended June 30, 2012 and 2011.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value Measurements

Level 3 Assets and Liabilities - Three Months Ended June 30, 2012

<i>(U.S. dollars in thousands)</i>	Corporate	RMBS - Agency	RMBS - Non Agency	CMBS	CDO
Balance, beginning of period	\$ 33,305	\$ 39,795	\$ -	\$ -	\$ 638,697
Realized gains (losses)	82	(30)	-	-	57
Movement in unrealized gains (losses)	94	195	-	-	6,186
Purchases and issuances	-	35	-	-	-
Sales and settlements	(213)	(4,345)	-	-	(1,488)
Transfers into Level 3	536	16,938	1,596	-	-
Transfers out of Level 3	(293)	-	-	-	(1,273)
Fixed maturities to short-term investments classification change	-	-	-	-	-
Balance, end of period	\$ 33,511	\$ 52,588	\$ 1,596	\$ -	\$ 642,179
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 94	\$ 197	\$ -	\$ -	\$ 6,186

Level 3 Assets and Liabilities - Three Months Ended June 30, 2012

<i>(U.S. dollars in thousands)</i>	Other asset-backed securities	Non-US Sovereign Government, Provincial, Supranational and Government Related/Supported	Short-term investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	\$ 16,410	\$ -	\$ -	\$ 115,659	\$ (40,630)
Realized gains (losses)	(135)	-	-	510	-
Movement in unrealized gains (losses)	4,145	-	-	3,616	4,683
Purchases and issuances	-	-	-	2,365	-
Sales and settlements	(844)	-	-	(4,080)	-
Transfers into Level 3	5,672	-	-	-	-
Transfers out of Level 3	-	-	-	(305)	-
Fixed maturities to short-term investments classification change	-	-	-	-	-
Balance, end of period	\$ 25,248	\$ -	\$ -	\$ 117,765	\$ (35,947)
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 3,918	\$ -	\$ -	\$ 1,326	\$ 4,683

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value Measurements

Level 3 Assets and Liabilities - Three Months Ended June 30, 2011

<i>(U.S. dollars in thousands)</i>	Corporate	RMBS - Agency	RMBS - Non Agency	CMBS	CDO
Balance, beginning of period	\$ 34,885	\$ 32,987	\$ 3,335	\$ 1,757	\$ 742,551
Realized gains (losses)	(247)	-	-	207	(419)
Movement in unrealized gains (losses)	353	61	(22)	(527)	9,633
Purchases and issuances	-	-	-	3,155	2,379
Sales and settlements	(7,567)	(165)	(119)	(29)	(29,530)
Transfers into Level 3	-	11,276	-	-	2,625
Transfers out of Level 3	(22,638)	(28,774)	-	-	-
Fixed maturities to short-term investments classification change	-	-	-	-	-
Balance, end of period	\$ 4,786	\$ 15,385	\$ 3,194	\$ 4,563	\$ 727,239
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 71	\$ 61	\$ (22)	\$ (320)	\$ 8,419

Level 3 Assets and Liabilities - Three Months Ended June 30, 2011

<i>(U.S. dollars in thousands)</i>	Other asset-backed securities	Non-US Sovereign Government, Provincial, Supranational and Government Related/Supported	Short-term investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	\$ 12,371	\$ -	\$ -	\$ 144,834	\$ (36,810)
Realized gains (losses)	161	-	-	12,155	-
Movement in unrealized gains (losses)	4,688	-	-	(1,982)	(12,725)
Purchases and issuances	-	-	-	6,254	-
Sales and settlements	(172)	-	-	(46,421)	(110)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	(300)	-
Fixed maturities to short-term investments classification change	-	-	-	-	-
Balance, end of period	\$ 17,048	\$ -	\$ -	\$ 114,540	\$ (49,645)
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 4,878	\$ -	\$ -	\$ 9,285	\$ (12,725)

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value Measurements

Level 3 Assets and Liabilities - Six Months Ended June 30, 2012

<i>(U.S. dollars in thousands)</i>	Corporate	RMBS - Agency	RMBS - Non Agency	CMBS	CDO
Balance, beginning of period	\$ 23,818	\$ 32,041	\$ -	\$ -	\$ 650,851
Realized gains (losses)	(42)	(96)	-	-	(1,612)
Movement in unrealized gains (losses)	1,255	(95)	-	-	39,379
Purchases and issuances	8,734	70	-	-	-
Sales and settlements	(1,608)	(3,211)	-	-	(44,835)
Transfers into Level 3	1,354	23,879	1,596	-	-
Transfers out of Level 3	-	-	-	-	(1,604)
Fixed maturities to short-term investments classification change	-	-	-	-	-
Balance, end of period	\$ 33,511	\$ 52,588	\$ 1,596	\$ -	\$ 642,179
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 1,255	\$ (95)	\$ -	\$ -	\$ 35,379

Level 3 Assets and Liabilities - Six Months Ended June 30, 2012

<i>(U.S. dollars in thousands)</i>	Other asset-backed securities	Non-US Sovereign Government, Provincial, Supranational and Government Related/Supported	Short-term investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	\$ 16,552	\$ -	\$ -	\$ 113,959	\$ (42,644)
Realized gains (losses)	(94)	-	-	2,438	-
Movement in unrealized gains (losses)	3,905	-	-	4,521	6,697
Purchases and issuances	-	-	-	3,682	-
Sales and settlements	(1,118)	-	-	(6,520)	-
Transfers into Level 3	6,003	-	-	-	-
Transfers out of Level 3	-	-	-	(315)	-
Fixed maturities to short-term investments classification change	-	-	-	-	-
Balance, end of period	\$ 25,248	\$ -	\$ -	\$ 117,765	\$ (35,947)
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 3,681	\$ -	\$ -	\$ 1,004	\$ 6,697

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value Measurements

Level 3 Assets and Liabilities - Six Months Ended June 30, 2011

<i>(U.S. dollars in thousands)</i>	Corporate	RMBS - Agency	RMBS - Non Agency	CMBS	CDO
Balance, beginning of period	\$ 36,866	\$ 30,255	\$ 4,964	\$ 1,623	\$ 721,572
Realized gains (losses)	(279)	-	-	(678)	(1,071)
Movement in unrealized gains (losses)	195	(50)	(16)	514	36,417
Purchases and issuances	6,877	-	-	3,155	2,379
Sales and settlements	(10,049)	(286)	(374)	(51)	(33,944)
Transfers into Level 3	-	-	-	-	1,886
Transfers out of Level 3	(28,824)	(14,534)	(1,380)	-	-
Fixed maturities to short-term investments classification change	-	-	-	-	-
Balance, end of period	\$ 4,786	\$ 15,385	\$ 3,194	\$ 4,563	\$ 727,239
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 6	\$ (50)	\$ (16)	\$ (152)	\$ 33,777

Level 3 Assets and Liabilities - Six Months Ended June 30, 2011

<i>(U.S. dollars in thousands)</i>	Other asset-backed securities	Non-US Sovereign Government, Provincial, Supranational and Government Related/Supported	Short-term investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	\$ 24,650	\$ 3,667	\$ -	\$ 133,717	\$ (39,195)
Realized gains (losses)	(317)	-	-	12,155	-
Movement in unrealized gains (losses)	6,860	-	-	7,492	(10,276)
Purchases and issuances	-	-	-	8,115	-
Sales and settlements	(9,114)	-	-	(46,939)	(174)
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	(5,031)	(3,667)	-	-	-
Fixed maturities to short-term investments classification change	-	-	-	-	-
Balance, end of period	\$ 17,048	\$ -	\$ -	\$ 114,540	\$ (49,645)
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 6,193	\$ -	\$ -	\$ 17,337	\$ (10,276)

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value Measurements

(c) Fixed maturities and short-term investments

The Company's Level 3 assets consist primarily of 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 CDOs 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 the CDO 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 to primarily to private equity investments and certain derivative positions as described below.

(d) Other investments

Included within the Other investments component of the Company's Level 3 valuations are private investments and alternative fund investments 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 nature of 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 incorporates 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 alternative funds included in Other investments utilize strategies including arbitrage, directional, event driven and multi-style. These funds potentially have lockup and gate provisions which may limit redemption liquidity. For further details regarding the nature of Other investments and related features see Item 8, Note 7, Other Investments, to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

(e) Derivative instruments

Derivative instruments recorded within Other liabilities and classified within Level 3 include credit derivatives sold providing 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 (GMIB) 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.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value Measurements

(f) 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 at June 30, 2012 and December 31, 2011. All of these fair values estimates are considered Level 2 fair value measurements. The fair values for fixed maturities held to maturity are provided by third party pricing vendors and significant valuation inputs for all other items included were based upon market data obtained from sources independent of the Company.

(U.S. dollars in thousands)	June 30, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed maturities, held to maturity	\$ 2,716,357	\$ 3,006,992	\$ 2,668,978	\$ 2,895,668
Other investments - structured transactions	314,015	289,874	323,705	297,124
Financial Assets	\$ 3,030,372	\$ 3,296,866	\$ 2,992,683	\$ 3,192,792
Deposit liabilities	\$ 1,600,595	\$ 1,876,742	\$ 1,608,108	\$ 1,809,812
Notes payable and debt	1,673,921	1,820,193	2,275,327	2,340,148
Financial Liabilities	\$ 3,274,516	\$ 3,696,935	\$ 3,883,435	\$ 4,149,960

The Company historically participated in structured transactions. Remaining structured transactions include cash loans supporting project finance transactions, providing liquidity facility financing 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 139.7 basis points at June 30, 2012 and the appropriate U.S. Treasury rate plus 161.8 basis points at December 31, 2011. 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.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

4. Segment Information

The Company is organized into three operating segments: Insurance, Reinsurance and Life operations. The Company's general investment and financing operations are reflected in Corporate.

The Company evaluates the performance of both the Insurance and Reinsurance segments based on underwriting profit while the Life operations segment performance is based on contribution. Other items of revenue and expenditure of the Company are not evaluated at the segment level. In addition, the Company does not allocate investment assets by segment for its Property and Casualty (P&C) operations. Investment assets related to the Company's Life operations and certain structured products included in the Insurance and Reinsurance segments and Corporate are held in separately identified portfolios. As such, net investment income from these assets is included in the contribution from the applicable segment.

Three Months Ended June 30, 2012

(U.S. dollars in thousands, except ratios)

	Insurance	Reinsurance	Total P&C	Life Operations	Total
Gross premiums written	\$ 1,311,034	\$ 452,417	\$ 1,763,451	\$ 92,904	\$ 1,856,355
Net premiums written	944,267	403,011	1,347,278	85,623	1,432,901
Net premiums earned	959,294	441,678	1,400,972	85,623	1,486,595
Net losses and loss expenses	(635,284)	(191,071)	(826,355)	(131,150)	(957,505)
Acquisition costs	(123,284)	(87,723)	(211,007)	(7,930)	(218,937)
Operating expenses (1)	(192,247)	(41,991)	(234,238)	(2,829)	(237,067)
Underwriting profit (loss)	\$ 8,479	\$ 120,893	\$ 129,372	\$ (56,286)	\$ 73,086
Net investment income	-	-	170,581	74,645	245,226
Net results from structured products (2)	9,047	(22,913)	(13,866)	-	(13,866)
Net fee income and other (3)	(1,847)	990	(857)	42	(815)
Net realized gains (losses) on investments			(2,154)	(10,239)	(12,393)

Contribution from P&C and Life Operations

\$ 283,076 \$ 8,162 \$ 291,238

Corporate & other:

Net realized & unrealized gains (losses) on derivative instruments					(4,300)
Net income (loss) from investment fund affiliates and operating affiliates (4)					25,658
Exchange gains (losses)					17,976
Corporate operating expenses					(50,061)
Interest expense (5)					(26,089)
Non-controlling interests					(3,454)
Income tax					(29,812)

Net income (loss) attributable to XL Group plc

\$ 221,156

Ratios P&C operations: (6)

Loss and loss expense ratio	66.2%	43.3%	59.0%
Underwriting expense ratio	32.9%	29.3%	31.8%
Combined ratio	99.1%	72.6%	90.8%

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- (1) Operating expenses exclude Corporate operating expenses, shown separately.
- (2) The net results from P&C structured products include net investment income and interest expense of \$17.4 million and \$31.3 million, respectively.
- (3) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business.
- (4) The Company records the income related to the alternative funds and to the private investment and operating fund affiliates on a one-month and three-month lag, respectively.
- (5) Interest expense excludes interest expense related to deposit liabilities recorded in the Insurance and Reinsurance segments.
- (6) Ratios are based on net premiums earned from P&C operations.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

4. Segment Information

Three Months Ended June 30,
2011(U.S. dollars in thousands,
except ratios)

	Insurance	Reinsurance	Total P&C	Life Operations	Total
Gross premiums written	\$ 1,290,030	\$ 472,413	\$ 1,762,443	\$ 100,281	\$ 1,862,724
Net premiums written	893,191	412,868	1,306,059	92,194	1,398,253
Net premiums earned	907,443	398,682	1,306,125	92,214	1,398,339
Net losses and loss expenses	(608,182)	(215,402)	(823,584)	(137,416)	(961,000)
Acquisition costs	(113,883)	(91,448)	(205,331)	(9,768)	(215,099)
Operating expenses (1)	(166,608)	(43,553)	(210,161)	(2,723)	(212,884)
Underwriting profit (loss)	\$ 18,770	\$ 48,279	\$ 67,049	\$ (57,693)	\$ 9,356
Net investment income	-	-	196,053	82,057	278,110
Net results from structured products (2)	2,690	2,226	4,916	-	4,916
Net fee income and other (3)	(3,218)	(9)	(3,227)	96	(3,131)
Net realized gains (losses) on investments			(10,248)	704	(9,544)
Contribution from P&C and Life Operations			\$ 254,543	\$ 25,164	\$ 279,707
Corporate & other:					
Net realized & unrealized gains (losses) on derivative instruments					(10,950)
Net income (loss) from investment fund affiliates and operating affiliates (4)					56,501
Exchange gains (losses)					8,498
Corporate operating expenses					(39,566)
Interest expense (5)					(41,599)
Non-controlling interests					(2,102)
Income tax					(24,826)
Net income (loss) attributable to XL Group plc					\$ 225,663

Ratios P&C operations: (6)

Loss and loss expense ratio	67.0%	54.0%	63.1%
Underwriting expense ratio	30.9%	33.9%	31.8%
Combined ratio	97.9%	87.9%	94.9%

(1) Operating expenses exclude Corporate operating expenses, shown separately.

(2) The net results from P&C structured products include net investment income and interest expense of \$18.4 million and \$13.5 million, respectively.

(3)

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Net fee income and other includes operating expenses from the Company's loss prevention consulting services business and expenses related to the cost of an endorsement facility with National Indemnity Company.

- (4) The Company records the income related to the alternative funds and to the private investment and operating fund affiliates on a one-month and three-month lag, respectively.
- (5) Interest expense excludes interest expense related to deposit liabilities recorded in the Insurance and Reinsurance segments.
- (6) Ratios are based on net premiums earned from P&C operations.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

4. Segment Information

Six Months Ended June 30, 2012

(U.S. dollars in thousands, except ratios)

	Insurance	Reinsurance	Total P&C	Life Operations	Total
Gross premiums written	\$ 2,647,668	\$ 1,432,767	\$ 4,080,435	\$ 179,587	\$ 4,260,022
Net premiums written	1,980,793	1,329,713	3,310,506	164,119	3,474,625
Net premiums earned	1,893,350	865,520	2,758,870	164,143	2,923,013
Net losses and loss expenses	(1,266,969)	(413,451)	(1,680,420)	(252,457)	(1,932,877)
Acquisition costs	(251,540)	(175,967)	(427,507)	(15,581)	(443,088)
Operating expenses (1)	(377,593)	(80,738)	(458,331)	(5,436)	(463,767)
Underwriting profit (loss)	\$ (2,752)	\$ 195,364	\$ 192,612	\$ (109,331)	\$ 83,281
Net investment income	-	-	343,549	149,671	493,220
Net results from structured products (2)	11,866	(20,415)	(8,549)	-	(8,549)
Net fee income and other (3)	(3,867)	1,323	(2,544)	90	(2,454)
Net realized gains (losses) on investments			22,813	(14,403)	8,410
Contribution from P&C and Life Operations			\$ 547,881	\$ 26,027	\$ 573,908
Corporate & other:					
Net realized & unrealized gains (losses) on derivative instruments					(3,598)
Net income (loss) from investment fund affiliates and operating affiliates (4)					61,319
Exchange gains (losses)					5,258
Corporate operating expenses					(94,321)
Interest expense (5)					(53,409)
Non-controlling interests					(40,011)
Income tax					(51,362)
Net income (loss) attributable to XL Group plc					\$ 397,784

Ratios P&C operations: (6)

Loss and loss expense ratio	66.9%	47.8%	60.9%
Underwriting expense ratio	33.2%	29.6%	32.1%
Combined ratio	100.1%	77.4%	93.0%

(1) Operating expenses exclude Corporate operating expenses, shown separately.

(2) The net results from P&C structured products include net investment income and interest expense of \$34.7 million and \$43.2 million, respectively.

(3) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business.

(4) The Company records the income related to the alternative funds and to the private investment and operating fund affiliates on a one-month and three-month lag, respectively.

(5) Interest expense excludes interest expense related to deposit liabilities recorded in the Insurance and Reinsurance segments.

(6) Ratios are based on net premiums earned from P&C operations.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

4. Segment Information

Six Months Ended June 30, 2011

(U.S. dollars in thousands, except ratios)

	Insurance	Reinsurance	Total P&C	Life Operations	Total
Gross premiums written	\$ 2,512,379	\$ 1,349,184	\$ 3,861,563	\$ 197,940	\$ 4,059,503
Net premiums written	1,812,181	1,208,160	3,020,341	181,866	3,202,207
Net premiums earned	1,783,363	794,458	2,577,821	181,901	2,759,722
Net losses and loss expenses	(1,396,695)	(635,754)	(2,032,449)	(270,647)	(2,303,096)
Acquisition costs	(221,527)	(164,974)	(386,501)	(17,088)	(403,589)
Operating expenses (1)	(330,703)	(89,183)	(419,886)	(4,889)	(424,775)
Underwriting profit (loss)	\$ (165,562)	\$ (95,453)	\$ (261,015)	\$ (110,723)	\$ (371,738)
Net investment income	-	-	379,618	159,033	538,651
Net results from structured products (2)	5,950	6,440	12,390	-	12,390
Net fee income and other (3)	(9,130)	1,385	(7,745)	137	(7,608)
Net realized gains (losses) on investments			(37,134)	(38,847)	(75,981)
Contribution from P&C and Life Operations			\$ 86,114	\$ 9,600	\$ 95,714
Corporate & other:					
Net realized & unrealized gains (losses) on derivative instruments					(7,383)
Net income (loss) from investment fund affiliates and operating affiliates (4)					97,287
Exchange gains (losses)					(1,016)
Corporate operating expenses					(75,258)
Interest expense (5)					(83,498)
Non-controlling interests					(35,438)
Income tax					7,971
Net income (loss) attributable to XL Group plc					\$ (1,621)

Ratios P&C operations: (6)

Loss and loss expense ratio	78.3%	80.0%	78.8%
Underwriting expense ratio	31.0%	32.0%	31.3%
Combined ratio	109.3%	112.0%	110.1%

(1) Operating expenses exclude Corporate operating expenses, shown separately.

(2) The net results from P&C structured products include net investment income and interest expense of \$38.1 million and \$25.7 million, respectively.

(3) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business and expenses related to the cost of an endorsement facility with National Indemnity Company.

(4)

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The Company records the income related to the alternative funds and to the private investment and operating fund affiliates on a one-month and three-month lag, respectively.

- (5) Interest expense excludes interest expense related to deposit liabilities recorded in the Insurance and Reinsurance segments.
- (6) Ratios are based on net premiums earned from P&C operations.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

4. Segment Information

The following tables summarize the Company's net premiums earned by line of business: