XL GROUP LTD
Form 10-Q
November 04, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 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	98-1304974
(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 x 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 x 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 x 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 x

As of November 1, 2016, there were 269,059,862 outstanding Common Shares, $0.01 par value per share, of the registrant.

XL GROUP LTD
INDEX TO FORM 10-Q

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
XL GROUP LTD
UNAUDITED CONSOLIDATED BALANCE SHEETS

(U.S. dollars in thousands, except share data)	September 30, 2016	December 31, 2015
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost: 2016 - $30,402,019; 2015 - $31,517,654)	$ 31,934,135	$ 32,257,589
Equity securities, at fair value (cost: 2016 - $968,040; 2015 - $834,079)	1,038,165	878,919
Short-term investments, at fair value (amortized cost: 2016 - $655,792; 2015 - $618,851)	652,772	617,390
Total investments available for sale	$ 33,625,072	$ 33,753,898
Fixed maturities, at fair value (amortized cost: 2016 - $1,480,434; 2015 - $1,263,609)	1,608,882	1,235,699
Short-term investments, at fair value (amortized cost: 2016 - $24,179; 2015 - $60,176)	24,169	60,330
Total investments, trading	$ 1,633,051	$ 1,296,029
Investments in affiliates	2,118,489	1,708,899
Other investments	1,260,938	1,433,057
Total investments	$ 38,637,550	$ 38,191,883
Cash and cash equivalents	3,393,277	3,256,236
Restricted cash	150,118	154,992
Accrued investment income	285,504	312,667
Deferred acquisition costs and value of business acquired	989,733	890,568
Ceded unearned premiums	1,917,127	1,821,793
Premiums receivable	5,925,969	4,712,493
Reinsurance balances receivable	524,343	418,666
Unpaid losses and loss expenses recoverable	5,481,882	5,262,706
Receivable from investments sold	105,781	231,158
Goodwill and other intangible assets	2,234,071	2,210,266
Deferred tax asset	219,905	282,311
Other assets	906,790	937,199
Total assets	$ 60,772,050	$ 58,682,938
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss expenses	$ 26,170,383	$ 25,439,744
Deposit liabilities	1,138,789	1,168,376
Future policy benefit reserves	3,721,451	4,163,500
Funds withheld on GreyCastle life retrocession arrangements (net of future policy benefit reserves recoverable: 2016 - $3,288,908; 2015 - $3,719,131)	1,283,055	914,629
Unearned premiums	7,724,957	7,043,358
Notes payable and debt	2,647,000	2,644,970
Reinsurance balances payable	2,698,185	2,117,727
Payable for investments purchased	370,456	130,060
Deferred tax liability	108,996	120,651
Other liabilities	1,315,898	1,285,460
Total liabilities	$ 47,179,170	$ 45,028,475
Commitments and Contingencies		
Shareholders' Equity:		

Common shares, 999,990,000 authorized, par value $0.01; issued and outstanding (2016 - 270,371,192; 2015 - 294,745,045)	$ 2,704	$ 2,947
Additional paid in capital	8,165,141	8,910,167
Accumulated other comprehensive income	1,519,805	686,616
Retained earnings	1,924,516	2,077,349
Shareholders' equity attributable to XL Group Ltd	$ 11,612,166	$ 11,677,079
Non-controlling interest in equity of consolidated subsidiaries	1,980,714	1,977,384
Total shareholders' equity	$ 13,592,880	$ 13,654,463
Total liabilities and shareholders' equity	$ 60,772,050	$ 58,682,938

See accompanying Notes to Unaudited Consolidated Financial Statements

1

XL GROUP LTD
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
(U.S. dollars in thousands, except per share data)	2016	2015	2016	2015
Revenues:				
Net premiums earned	$2,434,037	$2,423,552	$7,320,859	$5,839,605
Net investment income:				
Net investment income - excluding Life Funds Withheld Assets	170,834	178,560	511,402	512,994
Net investment income - Life Funds Withheld Assets	38,937	46,586	119,643	143,869
Total net investment income	$209,771	$225,146	$631,045	$656,863
Net realized gains (losses) on investments, and net unrealized gains (losses) on investments, trading ("Trading") - Life Funds Withheld Assets:				
Net realized gains (losses) on investments sold - excluding Life Funds Withheld Assets	68,414	42,513	131,568	78,630
Other-than-temporary impairments ("OTTI") on investments - excluding Life Funds Withheld Assets	(10,019)	(42,013)	(62,379)	(69,048)
OTTI on investments transferred to (from) other comprehensive income - excluding Life Funds Withheld Assets	—	(701)	258	(830)
Net realized gains (losses) on investments sold - Life Funds Withheld Assets	44,011	53,780	108,541	174,555
OTTI on investments - Life Funds Withheld Assets	—	(2,023)	(2,598)	(10,110)
Net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets	41,270	(149)	165,653	(18,932)
Total net realized gains (losses) on investments, and net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets	$143,676	$51,407	$341,043	$154,265
Net realized and unrealized gains (losses) on derivative instruments	5,490	(7,903)	2,774	57,127
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	(225,610)	(126,140)	(691,432)	(116,333)
Income (loss) from investment fund affiliates	12,156	(3,715)	20,756	62,991
Fee income and other	8,600	7,355	27,724	23,095
Total revenues	$2,588,120	$2,569,702	$7,652,769	$6,677,613
Expenses:				
Net losses and loss expenses incurred	$1,491,803	$1,464,285	$4,506,674	$3,385,307
Claims and policy benefits	5,875	22,579	16,294	64,047
Acquisition costs	403,888	409,173	1,227,675	904,486
Operating expenses	508,458	570,142	1,546,360	1,403,152
Foreign exchange (gains) losses	(1,695)	11,661	(54,614)	49,425
Loss (gain) on sale of subsidiary	(3,670)	—	(3,670)	—
Interest expense	49,445	51,929	157,486	153,034
Total expenses	$2,454,104	$2,529,769	$7,396,205	$5,959,451
Income (loss) before income tax and income (loss) from operating affiliates	$134,016	$39,933	$256,564	$718,162
Income (loss) from operating affiliates	12,410	8,196	46,478	40,326
Gain on sale of operating affiliate	—	—	—	340,407
Provision (benefit) for income tax	17,749	(37,042)	42,511	20,135

Net income (loss)	$128,677	$85,171	$260,531	$1,078,760
Non-controlling interests	58,076	57,889	124,263	100,158
Net income (loss) attributable to common shareholders	$70,601	$27,282	$136,268	$978,602
Weighted average common shares and common share equivalents outstanding, in thousands – basic	273,660	301,867	282,442	282,506
Weighted average common shares and common share equivalents outstanding, in thousands – diluted	277,094	306,954	286,125	287,473
Earnings (loss) per common share and common share equivalent – basic	$0.26	$0.09	$0.48	$3.46
Earnings (loss) per common share and common share equivalent – diluted	$0.25	$0.09	$0.48	$3.40

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP LTD
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
(U.S. dollars in thousands)	2016	2015	2016	2015
Net income (loss) attributable to common shareholders	$70,601	$27,282	$136,268	$978,602
Change in net unrealized gains (losses) on investments - excluding Life Funds Withheld Assets, net of tax	(25,188)	(97,658)	530,344	(356,248)
Change in adjustments related to future policy benefit reserves, net of tax	2,058	40,681	27,820	127,365
Change in net unrealized gains (losses) on investments - Life Funds Withheld Assets, net of tax	77,242	(33,569)	206,480	(317,500)
Change in net unrealized gains (losses) on affiliate and other investments, net of tax	7,457	(10,394)	(31,091)	24,293
Change in OTTI losses recognized in other comprehensive income, net of tax	1,461	2,137	5,580	13,570
Change in underfunded pension liability, net of tax	4,037	93	3,088	(261)
Change in value of cash flow hedge	(47)	12	(134)	119
Foreign currency translation adjustments, net of tax	44,198	(22,394)	91,102	(20,714)
Comprehensive income (loss)	$181,819	$(93,810)	$969,457	$449,226

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP LTD
UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(U.S. dollars in thousands)	Nine Months Ended September 30, 2016	2015
Common Shares:		
Balance - beginning of year	$2,947	$2,552
Issuance of common shares	16	515
Buybacks of common shares	(262)	(78)
Exercise of stock options	3	4
Balance - end of period	$2,704	$2,993
Additional Paid in Capital:		
Balance - beginning of year	$8,910,167	$7,359,102
Issuance of common shares	23	1,856,253
Buybacks of common shares	(790,541)	(228,857)
Exercise of stock options	5,731	7,900
Share-based compensation	39,761	42,009
Balance - end of period	$8,165,141	$9,036,407
Accumulated Other Comprehensive Income (Loss):		
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	530,344	(356,248)
Change in adjustments related to future policy benefit reserves, net of tax	27,820	127,365
Change in net unrealized gains (losses) on investments - Life Funds Withheld Assets, net of tax	206,480	(317,500)
Change in net unrealized gains (losses) on affiliate and other investments, net of tax	(31,091)	24,293
Change in OTTI losses recognized in other comprehensive income, net of tax	5,580	13,570
Change in underfunded pension liability, net of tax	3,088	(261)
Change in value of cash flow hedge	(134)	119
Foreign currency translation adjustments, net of tax	91,102	(20,714)
Balance - end of period	$1,519,805	$955,082
Retained Earnings (Deficit):		
Balance - beginning of year	$2,077,349	$1,187,639
Net income (loss) attributable to common shareholders	136,268	978,602
Dividends on common shares	(170,172)	(151,997)
Buybacks of common shares	(115,334)	(63,334)
Share-based compensation	(3,595)	(7,163)
Balance - end of period	$1,924,516	$1,943,747
Non-controlling Interest in Equity of Consolidated Subsidiaries:		
Balance - beginning of year	$1,977,384	$1,402,015
Non-controlling interests - contributions	6,393	10,292
Non-controlling interests - distributions	(7,958)	(17,519)
Non-controlling interests - acquired	—	562,285
Non-controlling interests	5,916	5,206
Non-controlling interest share in change in accumulated other comprehensive income (loss)	(1,021)	—
Balance - end of period	$1,980,714	$1,962,279
Total Shareholders' Equity	$13,592,880	$13,900,508

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP LTD
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars in thousands)	Nine Months Ended September 30, 2016	2015
Cash flows provided by (used in) operating activities:		
Net income (loss)	$260,531	$1,078,760
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	(341,043)	(154,265)
Net realized and unrealized (gains) losses on derivative instruments	(2,774)	(57,127)
Net realized and unrealized (gains) losses on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	691,432	116,333
Amortization of premiums (discounts) on fixed maturities	143,855	143,118
(Income) loss from investment and operating affiliates	(25,915)	(72,802)
Loss (gain) on sale of life subsidiary	(3,670)	—
Gain on sale of ARX Holding Corp.	—	(340,407)
Share-based compensation	60,514	57,695
Depreciation and amortization	86,014	50,662
Accretion of deposit liabilities	33,133	32,098
Changes in:		
Unpaid losses and loss expenses	820,938	16,169
Future policy benefit reserves	(156,804)	(208,286)
Funds withheld on GreyCastle life retrocession arrangements, net	(203,983)	(213,749)
Unearned premiums	731,463	225,785
Premiums receivable	(1,294,936)	(334,537)
Unpaid losses and loss expenses recoverable	(255,627)	(346,847)
Ceded unearned premiums	(122,856)	(16,172)
Reinsurance balances receivable	(111,238)	(918)
Deferred acquisition costs and value of business acquired	(88,261)	(40,087)
Reinsurance balances payable	587,682	389,494
Deferred tax asset - net	(11,015)	(38,619)
Derivatives	45,469	163,663
Other assets	(96,971)	(30,670)
Other liabilities	(41,972)	39,841
Other	(54,355)	50,368
Total adjustments	$389,080	$(569,260)
Net cash provided by (used in) operating activities	$649,611	$509,500
Cash flows provided by (used in) investing activities:		
Proceeds from sale of fixed maturities and short-term investments	$9,581,243	$10,568,708
Proceeds from redemption of fixed maturities and short-term investments	3,010,158	2,787,870
Proceeds from sale of equity securities	411,330	443,941
Purchases of fixed maturities and short-term investments	(11,557,045)	(12,720,937)
Purchases of equity securities	(611,086)	(436,622)
Proceeds from sale of affiliates	325,050	724,382
Purchases of affiliates	(556,548)	(94,745)
Purchase of subsidiaries, net of cash acquired	(92,893)	(1,020,015)
Proceeds from sales of subsidiaries, net of cash sold	19,144	—
Change in restricted cash	4,874	(147,810)

Other	193,392	(138,168)
Net cash provided by (used in) investing activities	$727,619	$(33,396)
Cash flows provided by (used in) financing activities:		
Proceeds from issuance of common shares and exercise of stock options	$5,735	$7,904
Buybacks of common shares	(906,137)	(292,269)
Dividends paid on common shares	(169,346)	(149,030)
Distributions to non-controlling interests	(93,470)	(80,641)
Contributions from non-controlling interests	6,394	10,292
Proceeds from the issuance of debt	—	980,600
Repayment of debt	(8,248)	—
Deposit liabilities	(63,488)	(79,944)
Net cash provided by (used in) financing activities	$(1,228,560)	$396,912
Effects of exchange rate changes on foreign currency cash	(11,629)	(54,760)
Increase (decrease) in cash and cash equivalents	$137,041	$818,256
Cash and cash equivalents - beginning of period	3,256,236	2,521,814
Cash and cash equivalents - end of period	$3,393,277	$3,340,070

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP LTD
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 simultaneously occurred 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 (the "Exchange Act") 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 reports 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". Additionally, upon completion of the Redomestication, XL-Bermuda fully and unconditionally guaranteed the majority of the outstanding debt issued by XLIT Ltd., an exempted company incorporated under the laws of the Cayman Islands ("XL-Cayman"). See Note 10, "Notes Payable and Debt and Financing Arrangements," for more information regarding our outstanding debt.

In connection with the Redomestication, on August 3, 2016, XL-Ireland distributed the ordinary shares of 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.

Prior to July 25, 2016, unless the context otherwise indicates, references herein to the "Company" are to, and these financial statements include the accounts of, XL-Ireland and its consolidated subsidiaries. On and subsequent to July 25, 2016, unless the context otherwise indicates, references herein to the "Company" are to, and these financial statements include the accounts of, 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 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 ("AFS") 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-

XL GROUP LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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 AFS security, an entity also should 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 adopted this guidance during the third quarter of 2016 and recognized approximately $4.5 million in earnings as a result of the adoption.

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 that 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 AFS 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 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 that it will have an impact on the Company's financial position and results of operations, but not the Company's cash flows.

In August 2016, the FASB issued an accounting standards update concerning the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. The amendments in this update are intended to address areas where GAAP is unclear and diversity in practice exists. The following areas are covered in this update: (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon debt instruments; (3) contingent consideration payments following a business combination; (4) proceeds from settlement of insurance claims; (5) proceeds from settlement of corporate-owned life insurance policies; (6) distributions received from equity method investees; (7) beneficial interests in securitization transactions; and (8) separation of cash flows. The guidance will be effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity adopts this update during an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments should be applied using a retrospective transition method to the period presented, unless it is impractical to do so. The Company is currently evaluating the impact of this guidance on our statement of cash flows and does not expect any material impact on the Company's financial position, or results of operations.

In October 2016 the FASB issued an accounting standards update concerning the tax effects of intra-entity asset transfers within a group. The new guidance requires an entity to reflect the income tax consequences of an intra-entity transfer of an asset other than inventory when that transfer occurs. This is a departure from current GAAP, which prohibits recognition of tax on such transfers until the asset has been sold to an external party or otherwise realized. The amendments are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted as of the beginning of an annual reporting period for which no financial statements (either interim or annual) have been issued or made available for issuance. The amendments should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact of this guidance.

In October 2016 the FASB issued an accounting standards update concerning the evaluation of indirect interests held through related parties during the assessment of variable interest entities ("VIEs"). When identifying the primary beneficiary of a VIE, this update requires a reporting entity that acts as the single decision maker of that VIE to include, on a proportionate basis, those interests held through related parties under common control when assessing whether it holds a variable interest in that VIE. This is a change from previous GAAP, which required such indirect interests to be included in their entirety during this assessment. In the event that a reporting entity is not considered to be the primary beneficiary of the VIE following this assessment, the update does not change the requirement to assess whether the entity and its related parties under common control as a group possess the characteristics of a primary beneficiary. The guidance will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. When adopted, the amendments in this update must be applied retrospectively to all periods since Accounting Standards Update 2015-02 was adopted, which for the Company was Q1 2016. The Company is currently evaluating the impact of this guidance, but does not expect any material impact on the Company's financial position, results of operations or cash flows.

3. Acquisitions and Disposals

(a) Brooklyn Acquisition

On September 30, 2016, the Company's indirect, wholly-owned subsidiary, Catlin Holdings Limited, completed the acquisition ("Brooklyn Acquisition") of Brooklyn Underwriting Pty Limited and Brooklyn IT Pty Limited (collectively "Brooklyn"). Brooklyn is a market-leading specialty underwriting agency in Australia and

Lloyd's-approved coverholder, serving brokers across Australia. The Company recorded definite-lived intangible assets of $22.9 million, which will be amortized over their estimated useful lives. See Note 8, "Goodwill and Other Intangible Assets," for further information.

(b) Sale of Life Insurance Subsidiary

On September 30, 2016, X.L. America, Inc. ("XL America") and XL Life and Annuity Holding Company ("XLLAHC"), both indirect wholly-owned subsidiaries of the Company, completed the previously announced sale of the Company's wholly-owned subsidiary XL Life Insurance and Annuity Company ("XLLIAC") to Mutual of Omaha Insurance Company ("Omaha") pursuant to the terms of the Stock Purchase Agreement with Omaha.

XL GROUP LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

XL America and XLLAHC received a closing date payment of $20.9 million in proceeds from the transaction, which was based upon the fair market value of the entity's investment assets and insurance licenses. The Company recorded a pre-tax gain of $3.7 million as a result of this transaction.

(c) 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 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 estimated 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: the estimated 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, the estimated 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 the estimated 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.

(d) 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 was 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 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.

XL GROUP LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(e) Catlin Acquisition
Overview
On May 1, 2015 (the "Acquisition Date"), XL-Ireland completed its acquisition (the "Catlin Acquisition") of the entire issued share capital of 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 $21.6 million and $140.4 million, for the three months ended September 30, 2016 and 2015, respectively, and $121.1 million and $323.7 million, for the nine months ended September 30, 2016 and 2015, respectively, in acquisition expenses related to the amortization of the value of business acquired asset.
- 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.

XL GROUP LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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 and payments made for the nine months ended September 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	42,295	26,470	9,160	83,641	161,566
2016 payments	41,593	37,263	9,802	95,852	184,510
Liabilities at September 30, 2016	$ 16,829	$ 6,176	$ 176	$ 11,164	$34,345

(f) 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 AFS 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

XL GROUP LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

accuracy of the prices received. 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 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 September 30, 2016 and December 31, 2015 by level within the fair value hierarchy:

September 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 September 30, 2016
Assets					
Fixed maturities - AFS - Excluding Life Funds Withheld Assets					
U.S. Government and Government-Related/Supported ("U.S. Government")	$—	$3,889,709	$ 43,650	$ —	$3,933,359
Corporate - Financials	—	3,768,137	10,207	—	3,778,344
Corporate - Non Financials	—	6,898,790	79	—	6,898,869
Residential mortgage-backed securities – Agency ("RMBS - Agency")	—	4,591,774	—	—	4,591,774
Residential mortgage-backed securities – Non-Agency ("RMBS - Non-Agency")	—	285,927	—	—	285,927
Commercial mortgage-backed securities ("CMBS")	—	296,003	101	—	296,104
Collateralized debt obligations ("CDOs")	—	—	141,281	—	141,281
Other asset-backed securities	—	972,040	1,130	—	973,170
U.S. States and political subdivisions of the States	—	2,598,854	—	—	2,598,854
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported ("Non-U.S. Governments")	—	5,642,141	—	—	5,642,141
Total fixed maturities - AFS - Excluding Funds Withheld Assets, at fair value	$—	$28,943,375	$ 196,448	$ —	$29,139,823
Equity securities, at fair value	693,510	344,655	—	—	1,038,165
Short-term investments, at fair value (1)	—	652,772	—	—	652,772
Total investments AFS - Excluding Funds Withheld Assets	$693,510	$29,940,802	$ 196,448	$ —	$30,830,760
Fixed maturities - Life Funds Withheld Assets					
U.S. Government	$—	$12,391	$ —	$ —	$12,391

Corporate - Financials	—	498,074	—	—	498,074
Corporate - Non Financials	—	1,185,022	—	—	1,185,022
RMBS – Agency	—	671	—	—	671
RMBS – Non-Agency	—	65	—	—	65
CMBS	—	105,969	—	—	105,969
Other asset-backed securities	—	137,929	—	—	137,929
Non-U.S. Governments	—	854,191	—	—	854,191
Total fixed maturities - AFS - Life Funds Withheld Assets, at fair value	$—	$2,794,312	$ —	$ —	$2,794,312
Total investments - AFS, at fair value	$693,510	$32,735,114	$ 196,448	$ —	$33,625,072

13

XL GROUP LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 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 September 30, 2016
Fixed maturities - Trading					
U.S. Government	$—	$16,866	$ —	$ —	$16,866
Corporate - Financials	—	487,472	—	—	487,472
Corporate - Non Financials	—	675,644	—	—	675,644
RMBS – Agency	—	1,680	—	—	1,680
RMBS – Non-Agency	—	151	—	—	151
CMBS	—	5,614	—	—	5,614
Other asset-backed securities	—	27,699	—	—	27,699
Non-U.S. Governments	—	393,756	—	—	393,756
Total fixed maturities - Trading - Life Funds Withheld Assets, at fair value	$—	$1,608,882	$ —	$ —	$1,608,882
Short-term investments, at fair value (1)	—	24,169	—	—	$24,169
Total investments, Trading	$—	$1,633,051	$ —	$ —	$1,633,051
Cash equivalents (2)	270,607	1,460,054	—	—	1,730,661
Cash equivalents - Life Funds Withheld Assets (2)	—	74,936	—	—	74,936
Other investments (3)	—	527,802	212,754	—	740,556
Other assets (4)	—	60,684	18,683	(23,873)	55,494
Total assets accounted for at fair value	$964,117	$36,491,641	$ 427,885	$ (23,873)	$37,859,770
Liabilities					
Funds withheld on GreyCastle Life Retro Arrangements (net of future policy benefit reserves recoverable) (5)	$—	$1,122,127	$ —	$ —	$1,122,127
Other liabilities (4)	—	48,347	18,640	(23,873)	43,114
Total liabilities accounted for at fair value	$—	$1,170,474	$ 18,640	$ (23,873)	$1,165,241

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

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 Withheld Assets, at fair value	$—	$28,952,208	$ 152,278	$ —	$29,104,486
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

14

XL GROUP LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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
Fixed maturities - Life Funds Withheld Assets					
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
Fixed maturities - Trading					
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 - Life Funds Withheld Assets, 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)	—	490,058	264,415	—	754,473
Other assets (4)	—	69,914	19,400	(3,087)	86,227
Total assets accounted for at fair value	$966,840	$35,860,721	$ 436,093	$ (3,087)	$37,260,567
Liabilities					
Funds withheld on GreyCastle Life Retro 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 Other asset-backed securities, U.S. and Non-U.S. Government securities and Corporate 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) Excluded from Other Investments are $378.4 million and $537.2 million as of September 30, 2016 and December 31, 2015, respectively, measured using Net Asset Value. Based on new accounting guidance, these investments are excluded from the fair value hierarchy table. In addition, the Other investments balance excludes a certain payment obligation. This investment, which totaled $142.0 million as of September 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 Retro 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.

XL GROUP LTD
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 nine months ended September 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 nine months ended September 30, 2016 and 2015 for all financial assets and liabilities measured at fair value using significant unobservable inputs (Level 3) at September 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 September 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.

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.

XL GROUP LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	Level 3 Assets and Liabilities - Three Months Ended September 30, 2016			
(U.S. dollars in thousands)	U.S. Government	Corporate - Financials	Corporate - Non-Financials	RMBS - Agency
Balance, beginning of period	$44,256	$ 43,637	$ 1,929	$ 15
Realized gains (losses)	(37)	(3,088)	—	—
Movement in unrealized gains (losses)	116	78	16	—
Purchases and issuances	—	—	—	—
Sales	—	(30,420)	—	—
Settlements	(685)	—	—	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	(1,866)	(15)
Balance, end of period	$43,650	$ 10,207	$ 79	$ —
Movement in total gains (losses) above relating to instruments still held at the reporting date	$79	$ —	$ 17	$ —

(U.S. dollars in thousands)	RMBS - Non Agency	CMBS	CDO	Other asset-backed securities
Balance, beginning of period	$—	$ —	$ 17,794	$ 6,855
Realized gains (losses)	—	—	99	(7)
Movement in unrealized gains (losses)	—	(1)	1,141	48
Purchases and issuances	—	—	124,843	—
Sales	—	—	—	—
Settlements	—	—	(2,596)	(1,671)
Transfers into Level 3	—	102	—	—
Transfers out of Level 3	—	—	—	(4,095)
Balance, end of period	$—	$ 101	$ 141,281	$ 1,130
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$ (1)	$ 333	$ —

(U.S. dollars in thousands)	Non-U.S. Government	Short-term investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	$—	$ —	$ 225,094	$ (9,836)
Realized gains (losses)	—	—	7,757	—
Movement in unrealized gains (losses)	—	—	(62)	9,879
Purchases and issuances	—	—	9,297	—
Sales	—	—	(12,000)	—
Settlements	—	—	(14,869)	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	(2,463)	—
Balance, end of period	$—	$ —	$ 212,754	$ 43
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$ —	$ 6,902	$ 55

18

XL GROUP LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(U.S. dollars in thousands)	Level 3 Assets and Liabilities - Three Months Ended September 30, 2015			
	U.S. Government	Corporate - Financials	Corporate - Non-Financials	RMBS - Agency
Balance, beginning of period	$ —	$ 10,000	$ 5,554	$ 3,038
Realized gains (losses)	—	—	(45)	—
Movement in unrealized gains (losses)	—	—	(1)	(2)
Purchases and issuances	—	—	—	—
Sales	—	—	—	—
Settlements	—	—	(236)	(154)
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Balance, end of period	$ —	$ 10,000	$ 5,272	$ 2,882
Movement in total gains (losses) above relating to instruments still held at the reporting date	$ —	$ —	$ (1)	$ (2)

(U.S. dollars in thousands)	RMBS - Non Agency	CMBS	CDO	Other asset-backed securities
Balance, beginning of period	$ —	$ —	$ 484,171	$ 42,745
Realized gains (losses)	—	—	(8,469)	553
Movement in unrealized gains (losses)	—	—	8,994	(976)
Purchases and issuances	—	—	2,101	3,334
Sales	—	—	(56,576)	—
Settlements	—	—	(22,558)	(3,087)
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	(6,449)
Balance, end of period	$ —	$ —	$ 407,663	$ 36,120
Movement in total gains (losses) above relating to instruments still held at the reporting date	$ —	$ —	$ 164	$ (5)

(U.S. dollars in thousands)	Non-U.S. Government	Short-term investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	$ —	$ —	$ 255,672	$ (9,753)
Realized gains (losses)	—	—	9,185	—
Movement in unrealized gains (losses)	—	—	(5,567)	69
Purchases and issuances	—	—	30,519	—
Sales	—	—	(1,417)	—
Settlements	—	—	(10,170)	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Balance, end of period	$ —	$ —	$ 278,222	$ (9,684)
Movement in total gains (losses) above relating to instruments still held at the reporting date	$ —	$ —	$ 3,618	$ 69

XL GROUP LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(U.S. dollars in thousands)	Level 3 Assets and Liabilities - Nine Months Ended September 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)	(112)	(2,991)	—	(3)
Movement in unrealized gains (losses)	743	10	16	7
Purchases and issuances	—	208	1,747	—
Sales	—	(30,420)	—	—
Settlements	(2,044)	—	(6)	(229)
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	(10,285)	(1,866)	(2,852)
Balance, end of period	$43,650	$ 10,207	$ 79	$—
Movement in total gains (losses) above relating to instruments still held at the reporting date	$630	$ 31	$ 17	$—

(U.S. dollars in thousands)	RMBS - Non Agency	CMBS	CDO	Other asset-backed securities
Balance, beginning of period	$—	$ —	$ 32,408	$ 17,857
Realized gains (losses)	—	—	189	515
Movement in unrealized gains (losses)	—	(1)	6,871	(2,149)
Purchases and issuances	—	—	124,843	1,072
Sales	—	—	—	—
Settlements	—	—	(23,030)	(14,190)
Transfers into Level 3	—	102	—	3,015
Transfers out of Level 3	—	—	—	(4,990)
Balance, end of period	$—	$ 101	$ 141,281	$ 1,130
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$ (1)	$ 6,152	$ (1,673)

(U.S. dollars in thousands)	Non-U.S. Government	Short-term investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	$—	$ —	$ 264,415	$ (9,791)
Realized gains (losses)	—	—	14,588	—
Movement in unrealized gains (losses)	—	—	(8,519)	9,834
Purchases and issuances	—	—	34,450	—
Sales	—	—	(12,000)	—
Settlements	—	—	(34,334)	—
Transfers into Level 3	—	—	15,494	—
Transfers out of Level 3	—	—	(61,340)	—
Balance, end of period	$—	$ —	$ 212,754	$ 43
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$ —	$ 5,276	$ 10

20

XL GROUP LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(U.S. dollars in thousands)	Level 3 Assets and Liabilities - Nine Months Ended September 30, 2015			
	U.S. Government	Corporate - Financials	Corporate - Non-Financials	RMBS - Agency
Balance, beginning of period	$ —	$ —	$ 5,894	$ 1,910
Realized gains (losses)	—	—	(186)	—
Movement in unrealized gains (losses)	—	—	3	(4)
Purchases and issuances (1)	—	10,000	(123)	1,297
Sales	—	—	—	—
Settlements	—	—	(316)	(321)
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Balance, end of period	$ —	$ 10,000	$ 5,272	$ 2,882
Movement in total gains (losses) above relating to instruments still held at the reporting date	$ —	$ —	$ (137)	$ (2)

(U.S. dollars in thousands)	RMBS - Non Agency	CMBS	CDO	Other asset-backed securities
Balance, beginning of period	$ —	$ —	$ 687,958	$ 5,288
Realized gains (losses)	—	—	(8,209)	644
Movement in unrealized gains (losses)	—	—	16,994	(966)
Purchases and issuances (1)	—	—	14,042	43,962
Sales	—	—	(211,661)	—
Settlements	—	—	(91,461)	(6,359)
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	(6,449)
Balance, end of period	$ —	$ —	$ 407,663	$ 36,120
Movement in total gains (losses) above relating to instruments still held at the reporting date	$ —	$ —	$ 4,889	$ 95

(U.S. dollars in thousands)	Non-U.S. Government	Short-term investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	$ —	$ —	$ 185,083	$ (9,764)
Realized gains (losses)	—	—	11,778	—
Movement in unrealized gains (losses)	—	—	(7,533)	80
Purchases and issuances (1)	—	—	103,822	—
Sales	—	—	(1,417)	—
Settlements	—	—	(13,511)	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Balance, end of period	$ —	$ —	$ 278,222	$ (9,684)
Movement in total gains (losses) above relating to instruments still held at the reporting date	$ —	$ —	$ 4,246	$ 80

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(1) Includes assets acquired as result of the transaction described in Note 3(e), "Acquisitions and Disposals - Catlin Acquisition"

(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.

XL GROUP LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

(U.S. dollars in thousands)	September 30, 2016 Carrying Value	Fair Value	December 31, 2015 Carrying Value	Fair Value
Financial Assets - Other investments	$141,995	$153,398	$141,329	$154,065
Deposit liabilities	$1,138,789	$1,450,164	$1,168,376	$1,436,210
Notes payable and debt	2,675,000	2,921,113	2,644,970	2,805,152
Financial Liabilities	$3,813,789	$4,371,277	$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 values 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 values of the deposit liabilities by assuming a discount rate equal to the appropriate U.S. Treasury rate plus 46.9 basis points and 26.5 basis points as of September 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(e), "Acquisitions and Disposals - Catlin Acquisition," the underwriting results of the acquired businesses from the Acquisition Date through September 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".

XL GROUP LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Three Months Ended September 30, 2016 (U.S. dollars in thousands, except ratios)	Insurance	Reinsurance	Total P&C	Corporate and Other (1)	Total
Gross premiums written	$2,153,379	$565,541	$2,718,920	$64,683	$2,783,603
Net premiums written	1,615,132	518,166	2,133,298	2,360	2,135,658
Net premiums earned	1,653,461	778,216	2,431,677	2,360	2,434,037
Less: Net losses and loss expenses (2)	1,068,268	423,535	1,491,803	5,875	1,497,678
Less: Acquisition costs (2)	221,137	181,749	402,886	1,002	403,888
Less: Operating expenses (3)	302,373	67,764	370,137	142	370,279
Underwriting profit (loss)	$61,683	$105,168	$166,851	$(4,659)	$162,192
Net investment income - excluding Life Funds Withheld Assets (4)			148,579	8,127	156,706
Net investment income - Life Funds Withheld Assets				38,937	38,937
Net results from structured products (5)	2,353	5,355	7,708	—	7,708
Net fee income and other (6)	(4,486)	620	(3,866)	595	(3,271)
Loss (gain) on sale of subsidiary			—	(3,670)	(3,670)
Net realized gains (losses) on investments - excluding Life Funds Withheld Assets			60,401	(2,006)	58,395
Net realized gains (losses) on investments and net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets			68	85,213	85,281
Net realized and unrealized gains (losses) on derivative instruments			—	5,490	5,490
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets			—	(225,610)	(225,610)
Net income (loss) from investment fund affiliates and operating affiliates			—	24,566	24,566
Less: Exchange (gains) losses			—	(1,695)	(1,695)
Less: Corporate operating expenses			—	126,308	126,308
Contribution from P&C and Corporate and Other			379,741	(190,290)	189,451
Less: Interest expense (7)				43,025	43,025
Less: Non-controlling interests				58,076	58,076
Less: Income tax expense				17,749	17,749
Net income (loss) attributable to common shareholders					$70,601
Ratios – P&C operations: (8)					
Loss and loss expense ratio	64.6 %	54.4 %	61.3 %		
Underwriting expense ratio	31.7 %	32.1 %	31.8 %		
Combined ratio	96.3 %	86.5 %	93.1 %		

(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 $6.4 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 LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended September 30, 2015 (U.S. dollars in thousands, except ratios)	Insurance	Reinsurance	Total P&C	Corporate and Other (1)	Total
Gross premiums written	$2,200,196	$458,946	$2,659,142	$80,208	$2,739,350
Net premiums written	1,664,562	408,654	2,073,216	17,812	2,091,028
Net premiums earned	1,632,988	772,752	2,405,740	17,812	2,423,552
Less: Net losses and loss expenses (2)	1,037,727	426,558	1,464,285	22,579	1,486,864
Less: Acquisition costs (2)	214,773	189,671	404,444	4,729	409,173
Less: Operating expenses (3)	334,211	88,682	422,893	(26)	422,867
Underwriting profit (loss)	$46,277	$67,841	$114,118	$(9,470)	$104,648
Net investment income - excluding Life Funds Withheld Assets (4)			152,738	10,254	162,992
Net investment income - Life Funds Withheld Assets				46,586	46,586
Net results from structured products (5)	3,328	1,109	4,437	—	4,437
Net fee income and other (6)	(5,207)	533	(4,674)	254	(4,420)
Net realized gains (losses) on investments - excluding Life Funds Withheld Assets			(197)	(4)	(201)
Net realized gains (losses) on investments and net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets			—	51,608	51,608
Net realized and unrealized gains (losses) on derivative instruments			—	(7,903)	(7,903)
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets			—	(126,140)	(126,140)
Net income (loss) from investment fund affiliates and operating affiliates			—	4,481	4,481
Less: Exchange (gains) losses			—	11,661	11,661
Less: Corporate operating expenses			—	135,500	135,500
Contribution from P&C and Corporate and Other			266,422	(177,495)	88,927
Less: Interest expense (7)				40,798	40,798
Less: Non-controlling interests				57,889	57,889
Less: Income tax expense				(37,042)	(37,042)
Net income (loss) attributable to common shareholders					$27,282
Ratios – P&C operations: (8)					
Loss and loss expense ratio	63.5%	55.2%	60.9%		
Underwriting expense ratio	33.7%	36.0%	34.4%		
Combined ratio	97.2%	91.2%	95.3%		

(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 $15.6 million and $11.1 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 LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Nine Months Ended September 30, 2016 (U.S. dollars in thousands, except ratios)	Insurance	Reinsurance	Total P&C	Corporate and Other (1)	Total
Gross premiums written	$7,169,363	$3,439,650	$10,609,013	$202,139	$10,811,152
Net premiums written	4,899,258	3,018,246	7,917,504	9,032	7,926,536
Net premiums earned	4,944,055	2,367,772	7,311,827	9,032	7,320,859
Less: Net losses and loss expenses (2)	3,163,599	1,343,075	4,506,674	16,294	4,522,968
Less: Acquisition costs (2)	679,009	544,380	1,223,389	4,286	1,227,675
Less: Operating expenses (3)	922,273	215,258	1,137,531	765	1,138,296
Underwriting profit (loss)	$179,174	$265,059	$444,233	$(12,313)	$431,920
Net investment income - excluding Life Funds Withheld Assets (4)			446,352	24,185	470,537
Net investment income - Life Funds Withheld Assets				119,643	119,643
Net results from structured products (5)	6,340	5,397	11,737	—	11,737
Net fee income and other (6)	(12,097)	2,705	(9,392)	1,068	(8,324)
Loss (gain) on sale of subsidiary			—	(3,670)	(3,670)
Net realized gains (losses) on investments - excluding Life Funds Withheld Assets			77,189	(7,742)	69,447
Net realized gains (losses) on investments and net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets			(3)	271,599	271,596
Net realized and unrealized gains (losses) on derivative instruments			—	2,774	2,774
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets			—	(691,432)	(691,432)
Net income (loss) from investment fund affiliates and operating affiliates			—	67,234	