

XL GROUP PLC
Form 10-Q
August 07, 2014

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 June 30, 2014

OR

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

For the transition period from _____ to _____

Commission file number 1-10804

XL GROUP

Public Limited Company

(Exact name of registrant as specified in its charter)

Ireland

(State or other jurisdiction of
incorporation or organization)

XL House, 8 St. Stephen's Green, Dublin 2, Ireland
(Address of principal executive offices and zip code)

+353 (1) 400-5500

(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 August 4, 2014, there were 265,499,119 outstanding Ordinary Shares, \$0.01 par value per share, of the registrant.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

XL GROUP PLC

UNAUDITED CONSOLIDATED BALANCE SHEETS

(U.S. dollars in thousands, except share data)

	June 30, 2014	December 31, 2013
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost: 2014, \$29,065,531; 2013, \$27,111,874)	\$ 30,442,921	\$ 27,500,136
Equity securities, at fair value (cost: 2014, \$839,716; 2013, \$903,201)	988,710	1,040,237
Short-term investments, at fair value (amortized cost: 2014, \$347,473; 2013, \$455,470)	347,674	456,288
Total investments available for sale	\$ 31,779,305	\$ 28,996,661
Fixed maturities, held to maturity at amortized cost (fair value: 2014, \$0; 2013, \$3,131,235)	—	2,858,695
Investments in affiliates	1,500,548	1,370,943
Other investments	1,204,564	1,164,630
Total investments	\$ 34,484,417	\$ 34,390,929
Cash and cash equivalents	3,071,139	1,800,832
Accrued investment income	322,100	346,809
Deferred acquisition costs	459,081	670,659
Ceded unearned premiums	1,129,091	788,871
Premiums receivable	3,409,296	2,612,602
Reinsurance balances receivable	149,995	118,885
Unpaid losses and loss expenses recoverable	3,354,273	3,435,230
Receivable from investments sold	59,469	144,765
Goodwill and other intangible assets	455,057	411,611
Deferred tax asset	216,312	237,884
Other assets	738,685	693,810
Total assets	\$ 47,848,915	\$ 45,652,887
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss expenses	\$ 20,281,934	\$ 20,481,065
Deposit liabilities	1,288,376	1,509,243
Future policy benefit reserves	5,273,549	4,803,816
Funds withheld on life retrocession arrangements (net of future policy benefit reserves recoverable: 2014, \$4,823,680; 2013, nil)	842,753	—
Unearned premiums	4,704,993	3,846,526
Notes payable and debt	2,262,452	2,263,203
Reinsurance balances payable	779,914	302,399
Payable for investments purchased	169,222	60,162
Deferred tax liability	72,527	86,330
Other liabilities	764,618	950,845
Total liabilities	\$ 36,440,338	\$ 34,303,589
Commitments and Contingencies		
Shareholders' Equity:		
	\$ 2,683	\$ 2,783

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Ordinary shares, 999,990,000 authorized, par value \$0.01; issued and outstanding (2014, 268,307,061; 2013, 278,253,308)		
Additional paid in capital	7,700,377	7,994,100
Accumulated other comprehensive income	1,207,034	736,657
Retained earnings	1,124,195	1,264,093
Shareholders' equity attributable to XL Group plc	\$10,034,289	\$9,997,633
Non-controlling interest in equity of consolidated subsidiaries	1,374,288	1,351,665
Total shareholders' equity	\$11,408,577	\$11,349,298
Total liabilities and shareholders' equity	\$47,848,915	\$45,652,887
See accompanying Notes to Unaudited Consolidated Financial Statements		

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XL GROUP PLC

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

	Three Months Ended		Six Months Ended	
	June 30,	2013	June 30,	2013
(U.S. dollars in thousands, except per share data)	2014		2014	
Revenues:				
Net premiums earned	\$1,496,594	\$1,562,393	\$2,985,433	\$3,092,084
Net investment income:				
Net investment income - excluding Life Funds Withheld Assets	213,608	232,546	446,797	479,014
Net investment income - Life Funds Withheld Assets	19,165	—	19,165	—
Total net investment income	\$232,773	\$232,546	\$465,962	\$479,014
Realized investment gains (losses):				
Net realized gains (losses) on investments sold - excluding Life Funds Withheld Assets	105,460	43,357	128,416	84,504
Other-than-temporary impairments ("OTTI") on investments - excluding Life Funds Withheld Assets	(24,362	) (1,561	) (26,638	) (5,288
OTTI on investments transferred to (from) other comprehensive income - excluding Life Funds Withheld Assets	(254	) (828	) (1,705	) (1,739
Net realized gains (losses) on investments sold - Life Funds Withheld Assets	624	—	624	—
OTTI on investments - Life Funds Withheld Assets	(8,771	) —	(8,771) —
Total net realized gains (losses) on investments	\$72,697	\$40,968	\$91,926	\$77,477
Net realized and unrealized gains (losses) on derivative instruments	11,599	(5,105	) 13,409	2,780
Net realized and unrealized gains (losses) on life retrocession embedded derivative	(17,546	) —	(17,546) —
Income (loss) from investment fund affiliates	17,683	46,543	50,986	78,764
Fee income and other	9,706	10,871	21,160	20,503
Total revenues	\$1,823,506	\$1,888,216	\$3,611,330	\$3,750,622
Expenses:				
Net losses and loss expenses incurred	\$827,880	\$937,606	\$1,659,385	\$1,780,690
Claims and policy benefits	85,299	116,767	198,886	227,720
Acquisition costs	184,619	231,886	384,033	452,145
Operating expenses	333,030	303,159	643,454	586,991
Exchange (gains) losses	21,141	(11,331	) 31,582	(44,766
Loss on sale of life reinsurance subsidiary	666,423	—	666,423	—
Interest expense	14,085	38,204	57,026	76,904
Total expenses	\$2,132,477	\$1,616,291	\$3,640,789	\$3,079,684
Income (loss) before income tax and income (loss) from operating affiliates	\$(308,971	) \$271,925	\$(29,459	) \$670,938
Income (loss) from operating affiliates	27,738	32,825	74,023	63,823
Provision (benefit) for income tax	(5,654	) 28,872	28,667	72,351
Net income (loss)	\$(275,579	) \$275,878	\$15,897	\$662,410
Non-controlling interests	3,682	3,180	39,441	38,922
Net income (loss) attributable to ordinary shareholders	\$(279,261	) \$272,698	\$(23,544	) \$623,488
Weighted average ordinary shares and ordinary share equivalents outstanding, in thousands – basic	270,924	289,513	273,616	292,277
	270,924	294,333	273,616	297,044

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Weighted average ordinary shares and ordinary share
equivalents outstanding, in thousands – diluted

Earnings (loss) per ordinary share and ordinary share equivalent – basic	\$ (1.03)	\$ 0.94		\$ (0.09)	\$ 2.13
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Earnings (loss) per ordinary share and ordinary share equivalent – diluted	\$ (1.03)	\$ 0.93		\$ (0.09)	\$ 2.10
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See accompanying Notes to Unaudited Consolidated Financial Statements

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XL GROUP PLC

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(U.S. dollars in thousands)	2014	2013	2014	2013
Net income (loss) attributable to ordinary shareholders	\$(279,261	) \$272,698	\$(23,544	) \$623,488
Change in net unrealized gains (losses) on investments - excluding Life Funds Withheld Assets, net of tax	260,690	(682,278	) 502,076	(794,501
Unrealized gains on held to maturity investment portfolio at time of transfer to available for sale, net of tax	424,861	—	424,861	—
Change in adjustments related to future policy benefit reserves, net of tax	(440,461	) (32,900	) (474,461	) (32,900
Change in net unrealized gains (losses) on investments - Life Funds Withheld Assets, net of tax	12,297	—	12,297	—
Change in net unrealized gains (losses) on affiliate and other investments, net of tax	10,850	30,076	13,973	25,642
Change in OTTI losses recognized in other comprehensive income, net of tax	1,636	14,438	4,932	19,620
Change in underfunded pension liability, net of tax	(8	) (91	) (39	) 295
Change in value of cash flow hedge	110	110	220	220
Foreign currency translation adjustments, net of tax	(9,602	) (23,718	) (13,482	) (27,637
Comprehensive income (loss)	\$(18,888	) \$(421,665	) \$446,833	) \$(185,773

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC
UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(U.S. dollars in thousands)	Six Months Ended	
	June 30,	
	2014	2013
Ordinary Shares:		
Balance - beginning of year	\$2,783	\$2,987
Issuance of ordinary shares	11	11
Buybacks of ordinary shares	(113	) (129
Exercise of stock options	2	5
Balance - end of period	\$2,683	\$2,874
Additional Paid in Capital:		
Balance - beginning of year	\$7,994,100	\$8,584,752
Issuance of ordinary shares	14	13
Buybacks of ordinary shares	(323,455	) (360,201
Exercise of stock options	3,055	8,380
Share-based compensation expense	26,663	17,620
Balance - end of period	\$7,700,377	\$8,250,564
Accumulated Other Comprehensive Income (Loss):		
Balance - beginning of year	\$736,657	\$1,520,020
Change in net unrealized gains (losses) on investments - excluding Life Funds Withheld Assets, net of tax	502,076	(794,501
Unrealized gains on held to maturity investment portfolio at time of transfer to available for sale, net of tax	424,861	—
Change in adjustments related to future policy benefit reserves, net of tax	(474,461	) (32,900
Change in net unrealized gains (losses) on investments - Life Funds Withheld Assets, net of tax	12,297	—
Change in net unrealized gains (losses) on affiliate and other investments, net of tax	13,973	25,642
Change in OTTI losses recognized in other comprehensive income, net of tax	4,932	19,620
Change in underfunded pension liability, net of tax	(39	) 295
Change in value of cash flow hedge	220	220
Foreign currency translation adjustments, net of tax	(13,482	) (27,637
Balance - end of period	\$1,207,034	\$710,759
Retained Earnings (Deficit):		
Balance - beginning of year	\$1,264,093	\$402,318
Net income (loss) attributable to ordinary shareholders	(23,544	) 623,488
Dividends on ordinary shares	(88,269	) (82,336
Buybacks of ordinary shares	(28,085	) (15,092
Balance - end of period	\$1,124,195	\$928,378
Non-controlling Interest in Equity of Consolidated Subsidiaries:		
Balance - beginning of year	\$1,351,665	\$1,346,325
Non-controlling interests - contributions	21,494	—
Non-controlling interests - distributions	—	(37
Non-controlling interests	1,129	82
Non-controlling interest share in change in accumulated other comprehensive income (loss)	—	(29
Non-controlling interests - deconsolidation	—	(1,841
Balance - end of period	\$1,374,288	\$1,344,500
Total Shareholders' Equity	\$11,408,577	\$11,237,075
See accompanying Notes to Unaudited Consolidated Financial Statements		

XL GROUP PLC
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	June 30,	2013
(U.S. dollars in thousands)	2014	2013
Cash flows provided by (used in) operating activities:		
Net income (loss)	\$ 15,897	\$ 662,410
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Net realized (gains) losses on investments	(91,926	) (77,477
Net realized and unrealized (gains) losses on derivative instruments	(13,409	) (2,780
Net realized and unrealized (gains) losses on life retrocession embedded derivative	17,546	—
Amortization of premiums (discounts) on fixed maturities	76,846	84,095
(Income) loss from investment and operating affiliates	(68,292	) (142,587
Loss on sale of life reinsurance subsidiary	666,423	—
Share-based compensation	40,563	28,400
Depreciation	29,107	23,693
Accretion of deposit liabilities	(7,762	) 25,467
Changes in:		
Unpaid losses and loss expenses	(264,804	) (293,927
Future policy benefit reserves	(93,202	) (90,147
Funds withheld on life retrocession agreements, net	(52,104) —
Unearned premiums	848,937	751,455
Premiums receivable	(792,588	) (779,737
Unpaid losses and loss expenses recoverable	136,758	95,046
Ceded unearned premiums	(338,855	) (222,467
Reinsurance balances receivable	(28,270	) (48,420
Deferred acquisition costs	216,453	(74,886
Reinsurance balances payable	420,902	478,012
Deferred tax asset - net	(51,571	) (9,476
Derivatives	(45,306	) 68,445
Other assets	(15,478	) (58,729
Other liabilities	(286,737	) (60,531
Other	34,501	3,794
Total adjustments	\$ 337,732	\$ (302,757
Net cash provided by (used in) operating activities	\$ 353,629	\$ 359,653
Cash flows provided by (used in) investing activities:		
Proceeds from sale of fixed maturities and short-term investments	\$ 3,043,659	\$ 2,110,114
Proceeds from redemption of fixed maturities and short-term investments	1,837,319	2,266,692
Proceeds from sale of equity securities	295,448	74,310
Purchases of fixed maturities and short-term investments	(3,801,109	) (4,108,180
Purchases of equity securities	(239,680	) (331,865
Proceeds from sale of affiliates	156,481	95,988
Purchases of affiliates	(196,487	) (259,630
Proceeds from sale of life reinsurance subsidiary	570,000	—
Other, net	(96,222	) 110,133
Net cash provided by (used in) investing activities	\$ 1,569,409	\$ (42,438
Cash flows provided by (used in) financing activities:		
Proceeds from issuance of ordinary shares and exercise of stock options	\$ 3,057	\$ 8,385
Buybacks of ordinary shares	(351,654) (375,423

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Dividends paid on ordinary shares	(87,056) (41,975)
Distributions to non-controlling interests	(38,502) (39,020)
Contributions from non-controlling interests	21,494	—	
Deposit liabilities	(213,869	) (44,117)
Net cash provided by (used in) financing activities	\$(666,530	) \$(492,150)
Effects of exchange rate changes on foreign currency cash	13,799	(23,361)
Increase (decrease) in cash and cash equivalents	\$1,270,307	\$(198,296)
Cash and cash equivalents - beginning of period	1,800,832	2,618,378	
Cash and cash equivalents - end of period	\$3,071,139	\$2,420,082	
See accompanying Notes to Unaudited Consolidated Financial Statements			

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XL GROUP PLC
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation and Consolidation

Unless the context otherwise indicates, references herein to the “Company” include XL Group plc, an Irish public limited company (“XL-Ireland”), and its consolidated subsidiaries.

These unaudited consolidated financial statements include the accounts of the Company and all of its subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by GAAP for complete financial statements. In addition, the year-end balance sheet data 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates. 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, 2013.

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) Investments Related to Life Retrocession Agreements written on a Funds Withheld Basis

The designated investments that support certain life retrocession agreements written on a funds withheld basis (“Life Funds Withheld Assets”) are included within “Total investments available for sale”. Investment results for these assets - including interest income, unrealized gains and losses, and gains and losses from sales - are passed directly to the reinsurer pursuant to a contractual arrangement which is accounted for as a derivative. See Note 3, “Sale of Life Reinsurance Subsidiary”, for information regarding the reinsurance arrangement.

Changes in the fair value of the embedded derivative associated with these life retrocession agreements are recorded in “Net realized and unrealized gains (losses) on life retrocession embedded derivative” on the consolidated statements of income. The fair value of the embedded derivative is included within “Funds withheld on life retrocession arrangements, net of future policy benefit reserves recoverable” on the consolidated balance sheets.

(b) Reinsurance

The Company enters into reinsurance agreements with other companies in the normal course of business. All balances related to reinsurance agreements are reported on a gross basis on our consolidated balance sheets as an asset for amounts recoverable from reinsurers or as a component of other liabilities for amounts, such as premiums, owed to the reinsurers, with the exception of the life retrocession agreements written on a funds withheld basis. The future policy benefit reserves recoverable related to these retrocession agreements are netted against the funds withheld liability owing to the counterparty on the consolidated balance sheets due to the right of offset.

(c) Recent Accounting Pronouncements

In July 2013, the FASB issued an accounting standards update concerning the presentation of unrecognized tax benefits. The objective of the guidance is to improve the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance seeks to reduce the diversity in practice by providing guidance on the presentation of unrecognized tax benefits to better reflect the manner in which an entity would settle, at the reporting date, any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The guidance was effective for annual and interim reporting periods beginning after December 15, 2013, with both early adoption and retrospective application permitted. This guidance did not have a significant

impact on the Company's financial condition, results of operations or cash flows.

In April 2014, the FASB issued an accounting standards update intended to improve financial reporting by changing key criteria used to evaluate whether disposal transactions meet the definition of discontinued operations. Under the guidance

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XL GROUP PLC
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

only those disposals of components of an entity - either by sale or otherwise - which represent strategic shifts that have, or will have, a major effect on an entity's operations and financial results would qualify for reporting as discontinued operations. Disposals that are considered to be routine in nature can no longer be reported as discontinued operations. However, a disposal may now qualify for discontinued operations reporting even if the disposed component's operations and cash flows are not eliminated from on-going operations of the disposing entity, or if post-disposal, the disposing entity still has significant continuing involvement in the component's operations. The standard also establishes both additional disclosure requirements and expanded disclosures regarding on-going involvement an entity may have with a discontinued operation after its disposal. The guidance is effective prospectively for all public company disposals (or component reclassifications to held-for-sale) that occur within annual periods beginning on or after December 15, 2014. Early adoption is permitted, but only for disposals (or component reclassifications to held-for-sale) that have not been reported in financial statements issued or available for issuance prior to the effective date. This guidance is not expected to have a significant impact on the Company's financial condition, results of operations or cash flows.

3. Sale of Life Reinsurance Subsidiary

On May 1, 2014, XL Insurance (Bermuda) Ltd ("XLIB") entered into a sale and purchase agreement with GreyCastle Holdings Ltd. ("GreyCastle") providing for the sale of 100% of the common shares of XL Life Reinsurance (SAC) Ltd ("XLLR") (subsequent to the transaction XLLR changed its name to GreyCastle Life Reinsurance (SAC) Ltd), a wholly-owned subsidiary of XLIB, to GreyCastle for \$570 million in cash. This transaction was completed on May 30, 2014. As a result of the transaction, XLLR reinsures the majority of the Company's life reinsurance business via 100% quota share reinsurance (the "Life Retro Arrangements"). This transaction covers a substantial portion of the Company's life reinsurance reserves. The Company announced the run-off of its life reinsurance business in 2009. The run-off life reinsurance business, including the business subject to the transaction, was previously reported within the Company's Life operations segment. Subsequent to the transaction, the Company no longer considers the Life Operations to be a separate operating segment and the results of the life run-off business are reported within "Corporate and Other." See Note 5, "Segment Information" for further information. In addition, certain securities within fixed maturities were reclassified from held to maturity to available for sale in conjunction with this transaction. See Note 6, "Investments" for further information.

All of the reclassified securities are included within Life Funds Withheld Assets, along with certain other available for sale securities as defined in the sale and purchase agreement. 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 GreyCastle. 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.

At May 30, 2014, gross future policy benefit reserves relating to the Life operations were approximately \$5.2 billion. Subsequent to the completion of this transaction the Company has retained approximately \$0.4 billion of these reserves, and has recorded a reinsurance recoverable from XLLR of \$4.8 billion. Under the terms of the transaction, the Company continues to own, on a funds withheld basis, \$5.7 billion of assets supporting the Life Retro Arrangements consisting of cash, fixed maturity securities and accrued interest. Based upon the right of offset, the funds withheld liability owing to GreyCastle is recorded net of future policy benefit reserves recoverable, and is included within "Funds withheld on life retrocession arrangements, net of future policy benefit reserves recoverable" on the unaudited consolidated balance sheets.

The transaction resulted in an overall after-tax U.S. GAAP net loss of \$621.3 million. The changes in this amount from the previous estimate provided by the Company were primarily the result of movements in the mark-to-market value of the Life Funds Withheld Assets, additional underwriting profits earned on the business subject to the Life Retro Arrangements and foreign exchange rate movements from March 31, 2014 through completion of the transaction.

The impact of the Life Retro Arrangements on the Company's results from the completion of the transaction on May 30, 2014 through June 30, 2014 were as follows:

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XL GROUP PLC
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	May 30 to June 30 2014
Impact of Life Retro Arrangements	
(U.S. dollars in thousands)	
Underwriting profit (loss)	\$—
Net investment income - Life Funds Withheld Assets	19,165
Net realized gains (losses) on investments sold - Life Funds Withheld Assets	624
OTTI on investments - Life Funds Withheld Assets	(8,771)
Other income and expenses	(19)
Net realized and unrealized gains (losses) on life retrocession embedded derivative	(17,546)
Net income (loss)	\$(6,547)
Change in net unrealized gains (losses) on investments - Life Funds Withheld Assets, net of tax	12,297
Change in cumulative translation adjustment - Life Funds Withheld Assets, net of tax	(5,750)
Comprehensive income (loss)	\$—

As shown in the table above, although the Company's net income (loss) is subject to variability related to the Life Retro Arrangements, there is no net impact on the company's comprehensive income in any period. The life retrocession embedded derivative value includes the interest income, unrealized gains and losses, and realized gains and losses from sales on the Life Funds Withheld Assets subsequent to May 30, 2014.

4. Fair Value Measurements

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

The fair values for available for sale investments are generally sourced from third parties. The fair value of fixed income securities is based upon quoted market values where available, "evaluated bid" prices provided by third party pricing services ("pricing services") where quoted market values are not available, or by reference to broker quotes where pricing services do not provide coverage for a particular security. While the Company receives values for the majority of the investment securities it holds from pricing services, it is ultimately management's responsibility to determine whether the values received and recorded in the financial statements are representative of appropriate fair value measurements.

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

Where broker quotes are the primary source of the valuations, sufficient information regarding the specific inputs utilized by the brokers is generally not available to support a Level 2 classification. The Company obtains the majority of broker quoted values from third party investment managers who perform independent verifications of these

valuations using pricing matrices based upon information gathered by market traders. In addition, for the majority of these securities, the Company compares the broker quotes to independent valuations obtained from third party pricing vendors, which may also consist of broker quotes, to assess if the prices received represent a reasonable estimate of the fair value.

As discussed in Note 2(a), “Significant Accounting Policies - Investments Related to Life Retrocession Agreements written on a Funds Withheld Basis,” under the Life Retro Arrangements, all of the investment results associated with the Life Funds Withheld Assets ultimately accrue to GreyCastle. Because the Company no longer shares in the risks and rewards of the underlying performance of the Life Funds Withheld Assets, the financial statements and accompanying notes included herein separate the Life Funds Withheld Assets from the rest of the Company's investments.

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For further information, see Item 8, Note 2(b), "Significant Accounting Policies - 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, 2013.

(a) Fair Value Summary

The following tables set forth the Company's assets and liabilities that were accounted for at fair value at June 30, 2014 and December 31, 2013 by level within the fair value hierarchy:

June 30, 2014 (U.S. dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Collateral and Counterparty Netting	Balance at June 30, 2014
Assets					
Fixed maturities - Available for Sale ("AFS") - Excluding Life Funds					
Withheld Assets					
U.S. Government and Government-Related/Supported Corporate (1)	\$—	\$2,084,294	\$—	\$—	\$2,084,294
Residential mortgage-backed securities – Agency ("RMBS - Agency")	—	9,723,691	3,933	—	9,727,624
Residential mortgage-backed securities – Non-Agency ("RMBS - Non-Agency")	—	3,296,150	6,896	—	3,303,046
Commercial mortgage-backed securities ("CMBS")	—	415,492	11	—	415,503
Collateralized debt obligations ("CDO")	—	1,122,342	1,945	—	1,124,287
Other asset-backed securities (2)	—	5,249	732,824	—	738,073
U.S. States and political subdivisions of the States	—	1,298,568	11,704	—	1,310,272
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	—	1,939,590	—	—	1,939,590
Total fixed maturities - AFS - Excluding Funds Withheld Assets, at fair value	\$—	4,355,861	—	—	4,355,861
Equity securities, at fair value (3)	603,993	\$24,241,237	\$757,313	\$—	\$24,998,550
Short-term investments, at fair value (1)(4)	—	384,717	—	—	988,710
Total investments AFS - Excluding Funds Withheld Assets	\$603,993	347,674	\$757,313	\$—	347,674
Fixed maturities - Life Funds Withheld Assets					
U.S. Government and Government-Related/Supported Corporate	\$—	\$18,225	\$—	\$—	\$18,225
RMBS – Agency	—	3,017,446	—	—	3,017,446
RMBS – Non-Agency	—	4,023	—	—	4,023
CMBS	—	88,104	—	—	88,104
	—	216,844	—	—	216,844

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CDO	—	—	—	—	—
Other asset-backed securities	—	293,617	—	—	293,617
U.S. States and political subdivisions of the States	—	—	—	—	—
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	—	1,806,112	—	—	1,806,112
Total fixed maturities - AFS - Life Funds Withheld Assets, at fair value	\$—	\$5,444,371	\$—	\$—	\$5,444,371
Total investments - AFS, at fair value	\$603,993	\$30,417,999	\$757,313	\$—	\$31,779,305
Cash equivalents (5)	1,792,096	464,544	—	—	2,256,640
Cash equivalents - Life Funds Withheld Assets	646	122,393	—	—	123,039
Other investments (6)	—	804,268	124,475	—	928,743
Other assets (7)	—	48,117	12,453	(1,240)	) 59,330
Total assets accounted for at fair value	\$2,396,735	\$31,857,321	\$894,241	\$(1,240)	) \$35,147,057
Liabilities					
Financial instruments sold, but not yet purchased (8)	\$1,854	\$29,296	\$—	\$—	\$31,150
Other liabilities (7)	—	38,277	31,363	(1,240)	) 68,400
Total liabilities accounted for at fair value	\$1,854	\$67,573	\$31,363	\$(1,240)) \$99,550

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December 31, 2013 (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, 2013
Assets					
U.S. Government and Government - Related/Supported	\$—	\$2,501,851	\$—	\$—	\$2,501,851
Corporate (1)	—	11,094,257	31,573	—	11,125,830
RMBS – Agency	—	3,535,649	10,473	—	3,546,122
RMBS – Non-Agency	—	398,759	9	—	398,768
CMBS	—	1,234,262	12,533	—	1,246,795
CDO	—	7,060	710,253	—	717,313
Other asset-backed securities (2)	—	1,230,227	11,877	—	1,242,104
U.S. States and political subdivisions of the States	—	1,845,812	—	—	1,845,812
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	—	4,875,541	—	—	4,875,541
Total fixed maturities, at fair value	\$—	\$26,723,418	\$776,718	\$—	\$27,500,136
Equity securities, at fair value (3)	540,331	499,906	—	—	1,040,237
Short-term investments, at fair value (1)(4)	—	454,273	2,015	—	456,288
Total investments available for sale	\$540,331	\$27,677,597	\$778,733	\$—	\$28,996,661
Cash equivalents (5)	834,514	226,636	—	—	1,061,150
Other investments (6)	—	757,110	113,472	—	870,582
Other assets (7)	—	27,487	—	(1,342)	26,145
Total assets accounted for at fair value	\$1,374,845	\$28,688,830	\$892,205	\$(1,342)	\$30,954,538
Liabilities					
Financial instruments sold, but not yet purchased (8)	\$—	\$28,861	\$—	\$—	\$28,861
Other liabilities (7)	—	76,375	29,110	(1,342)	104,143
Total liabilities accounted for at fair value	\$—	\$105,236	\$29,110	\$(1,342)	\$133,004

Included within Corporate are certain medium term notes supported primarily by pools of European investment grade credit with varying degrees of leverage. The notes had a fair value of \$155.9 million and \$154.6 million and (1) an amortized cost of \$143.6 million and \$147.7 million at June 30, 2014 and December 31, 2013, respectively.

These notes allow the investor to participate in cash flows of the underlying bonds including certain residual values, which could serve to either decrease or increase the ultimate values of these notes.

The Company invests in covered bonds (“Covered Bonds”). Covered Bonds are senior secured debt instruments issued by financial institutions and backed by over-collateralized pools of public sector or mortgage loans. At (2) June 30, 2014 and December 31, 2013, Covered Bonds with a fair value of \$763.6 million and \$553.1 million, respectively, are included within Other asset-backed securities.

(3) Included within Equity securities are investments in fixed income funds with a fair value of \$92.1 million and \$87.4 million at June 30, 2014 and December 31, 2013, respectively.

- (4) Short-term investments consist primarily of Corporate securities and U.S. and Non-U.S. Government and Government-Related/Supported securities.
- (5) Cash equivalents balances subject to fair value measurement include certificates of deposit and money market funds. Operating cash balances are not subject to recurring fair value measurement guidance. The Other investments balance excludes certain structured transactions including certain investments in project finance transactions, a payment obligation and liquidity financing provided to a structured credit vehicle as a part of a third party medium term note facility. These investments, which totaled \$275.8 million at June 30, 2014 and \$294.0 million at December 31, 2013, are carried at amortized cost. For further information, see Item 8, Note 7, “Other Investments,” to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2013.
- (6) 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,” to the Unaudited Consolidated Financial Statements.
- (7) Financial instruments sold, but not yet purchased, represent “short sales” and are included within “Payable for investments purchased” on the balance sheets.
- (8)

(b) Level 3 Assets and Liabilities

The tables below present additional information about assets and liabilities measured at fair value on a recurring basis and for which Level 3 inputs were utilized to determine fair value. The tables present a reconciliation of the beginning and ending balances for the three and six months ended June 30, 2014 and 2013 for all financial assets and liabilities measured at fair value using significant unobservable inputs (Level 3) at June 30, 2014 and 2013, respectively. The tables do not include gains or losses that were reported in Level 3 in prior periods for assets that were transferred out of Level 3 prior to June 30, 2014 and 2013. Gains and losses for assets and liabilities classified within Level 3 in the table below may include changes in

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fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). Further, it should be noted that the following tables do not take into consideration the effect of offsetting Level 1 and 2 financial instruments entered into by the Company that are either economically hedged by certain exposures to the Level 3 positions or that hedge the exposures in Level 3 positions.

In general, Level 3 assets include securities for which values were obtained from brokers where either significant inputs were utilized in determining the values that were difficult to corroborate with observable market data, or sufficient information regarding the specific inputs utilized by the broker was not available to support a Level 2 classification. Transfers into or out of Level 3 primarily arise as a result of the valuations utilized by the Company changing between either those provided by independent pricing services that do not contain significant unobservable inputs and other valuations sourced from brokers that are considered Level 3.

There were no significant transfers between Level 1 and Level 2 during the three and six months ended June 30, 2014 and 2013.

Level 3 Assets and Liabilities -Three Months Ended June 30, 2014

(U.S. dollars in thousands)	Corporate	RMBS - Agency	RMBS - Non Agency	CMBS	CDO
Balance, beginning of period	\$4,382	\$ 8,928	\$11	\$5,926	\$718,827
Realized gains (losses)	35	6	—	2	875
Movement in unrealized gains (losses)	(93	) (13	) —	(1	) 8,331
Purchases and issuances	8	—	—	1,376	75,201
Sales	—	—	—	—	(30,892
Settlements	(399	) (2,025	) —	(5,358	) (39,518
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—
Fixed maturities to short-term investments classification change	—	—	—	—	—
Balance, end of period	\$3,933	\$ 6,896	\$11	\$1,945	\$732,824
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$(58	) \$(6	) \$—	\$—	\$8,247

Level 3 Assets and Liabilities -Three Months Ended June 30, 2014

(U.S. dollars in thousands)	Other asset-backed securities	Non-US Sovereign			Derivative Contracts - Net
		Government, Provincial, Supranational and Government Related/Supported	Short-term investments	Other investments	
Balance, beginning of period	\$10,673	\$ —	\$—	\$116,418	\$(32,496
Realized gains (losses)	(5	) —	—	5,127	—
Movement in unrealized gains (losses)	144	—	—	(1,779	) 13,586
Purchases and issuances	3,000	—	—	9,997	—
Sales	—	—	—	—	—
Settlements	(2,108) —	—	(5,288) —
Transfers into Level 3	—	—	—	—	—

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Transfers out of Level 3	—	—	—	—	—
Fixed maturities to short-term investments classification change	—	—	—	—	—
Balance, end of period	\$ 11,704	\$ —	\$—	\$ 124,475	\$(18,910)
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 140	\$ —	\$—	\$ 3,348	\$ 13,586

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Level 3 Assets and Liabilities -Three Months Ended June 30, 2013

(U.S. dollars in thousands)	Corporate	RMBS - Agency	RMBS - Non Agency	CMBS	CDO	
Balance, beginning of period	\$40,815	\$ 19,107	\$103	\$25,012	\$702,904	
Realized gains (losses)	(69) (2) —	—	(55)
Movement in unrealized gains (losses)	426	(19	) —	(19	) 14,491
Purchases and issuances	—	—	3,326	—	5,362	
Sales	—	—	—	—	—	
Settlements	(7,139) (872) (18) (570) (16,689)
Transfers into Level 3	—	—	—	—	—	
Transfers out of Level 3	(1,860) —	—	—	—	
Fixed maturities to short-term investments classification change	—	—	—	—	—	
Balance, end of period	\$32,173	\$ 18,214	\$3,411	\$24,423	\$706,013	
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$424	\$ (22	) \$(1	) \$(19	) \$13,804

Level 3 Assets and Liabilities -Three Months Ended June 30, 2013

(U.S. dollars in thousands)	Other asset-backed securities	Non-US Sovereign Government, Provincial, Supranational and Government Related/Supported	Short-term investments	Other investments	Derivative Contracts - Net	
Balance, beginning of period	\$35,887	\$ —	\$2,017	\$113,322	\$(32,550)
Realized gains (losses)	(13	) —	(10	) 2,872	—
Movement in unrealized gains (losses)	(512	) —	(8	) 932	3,176
Purchases and issuances	—	—	—	1,002	—	
Sales	—	—	—	—	—	
Settlements	(1,317	) —	—	(14,284) —	
Transfers into Level 3	—	—	—	—	—	
Transfers out of Level 3	(6,506) —	—	—	—	
Fixed maturities to short-term investments classification change	—	—	—	—	—	
Balance, end of period	\$27,539	\$ —	\$1,999	\$103,844	\$(29,374)
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$(525) \$ —	\$(18) \$3,812	\$3,176	

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(U.S. dollars in thousands)	Level 3 Assets and Liabilities - Six Months Ended June 30, 2014				
	Corporate	RMBS - Agency	RMBS - Non Agency	CMBS	CDO
Balance, beginning of period	\$31,573	\$ 10,473	\$9	\$12,533	\$710,253
Realized gains (losses)	155	6	—	3	2,456
Movement in unrealized gains (losses)	(96	) (13	) 2	(3	) 12,013
Purchases and issuances	1,443	—	—	1,376	103,015
Sales	—	—	—	—	(40,824
Settlements	(5,513	) (2,598	) —	(11,964	) (54,089
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	(23,629	) (972) —	—	—
Fixed maturities to short-term investments classification change	—	—	—	—	—
Balance, end of period	\$3,933	\$ 6,896	\$11	\$1,945	\$732,824
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$90	\$ (6	) \$2	\$—	\$13,216

(U.S. dollars in thousands)	Level 3 Assets and Liabilities - Six Months Ended June 30, 2014				
	Other asset-backed securities	Non-US Sovereign Government, Provincial, Supranational and Government Related/Supported	Short-term investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	\$11,877	\$ —	\$2,015	\$113,472	\$(29,110
Realized gains (losses)	(20	) —	—	8,691	—
Movement in unrealized gains (losses)	206	—	(15	) (282	) 10,200
Purchases and issuances	3,000	—	—	21,086	—
Sales	—	—	—	—	—
Settlements	(3,359	) —	(2,000	) (18,492) —
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—
Fixed maturities to short-term investments classification change	—	—	—	—	—
Balance, end of period	\$11,704	\$ —	\$—	\$124,475	\$(18,910
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$186	\$ —	\$—	\$8,409	\$10,200

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(U.S. dollars in thousands)	Level 3 Assets and Liabilities - Six Months Ended June 30, 2013				
	Corporate	RMBS - Agency	RMBS - Non Agency	CMBS	CDO
Balance, beginning of period	\$30,098	\$ 32,005	\$116	\$25,347	\$701,736
Realized gains (losses)	(71	) 11	—	—	301
Movement in unrealized gains (losses)	630	(37	) —	(18	) 35,746
Purchases and issuances	10,621	—	3,326	—	5,362
Sales	—	(535) —	—	—
Settlements	(7,245	) (1,765	) (31	) (906	) (37,132
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	(1,860	) (11,465) —	—	—
Fixed maturities to short-term investments classification change	—	—	—	—	—
Balance, end of period	\$32,173	\$ 18,214	\$3,411	\$24,423	\$706,013
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$627	\$ (40	) \$(1	) \$(18	) \$34,278

(U.S. dollars in thousands)	Level 3 Assets and Liabilities - Six Months Ended June 30, 2013				
	Other asset-backed securities	Non-US Sovereign Government, Provincial, Supranational and Government Related/Supported	Short-term investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	\$18,128	\$ —	\$—	\$115,272	\$(36,247
Realized gains (losses)	38	—	(10	) 5,787	—
Movement in unrealized gains (losses)	963	—	(8	) (970	) 6,873
Purchases and issuances	21,686	—	2,017	2,907	—
Sales	—	—	—	—	—
Settlements	(6,770	) —	—	(19,152) —
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	(6,506) —	—	—	—
Fixed maturities to short-term investments classification change	—	—	—	—	—
Balance, end of period	\$27,539	\$ —	\$1,999	\$103,844	\$(29,374
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$(516	) \$ —	\$(18	) \$4,808	\$6,873

(c) Fixed maturities and short-term investments

The Company's Level 3 assets consist primarily of CDOs, for which non-binding broker quotes are the primary source of the valuations. Sufficient information regarding the specific inputs utilized by the brokers was not available to support a Level 2 classification. The Company obtains the majority of broker quotes for these CDOs from third party investment managers who perform independent verifications of these valuations using pricing matrices based upon

information gathered by market traders. In addition, for the majority of these securities, the Company compares the broker quotes to independent valuations obtained from third party pricing vendors, which may also consist of broker quotes, to assess if the prices received represent a reasonable estimate of the fair value. Although the Company does not have access to the specific unobservable inputs that may have been used in the fair value measurements of the CDO securities provided by brokers, we would expect that the significant inputs considered are prepayment rates, probability of default, loss severity in the event of default, recovery rates, liquidity premium and reinvestment rates. Significant increases (decreases) in any of those inputs in isolation could result in a significantly different fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

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

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(d) Other investments

Included within the Other investments component of the Company's Level 3 valuations are private investments and alternative fund investments where the Company is not deemed to have significant influence over the investee. The fair value of these investments is based upon net asset values received from the investment manager or general partner of the respective entity. The nature of the underlying investments held by the investee that form the basis of the net asset value include assets such as private business ventures and are such that significant Level 3 inputs are utilized in the determination of the individual underlying holding values and, accordingly, the fair value of the Company's investment in each entity is classified within Level 3. The Company has not adjusted the net asset values received; however, management incorporates factors such as the most recent financial information received, annual audited financial statements and the values at which capital transactions with the investee take place when applying judgment regarding whether any adjustments should be made to the net asset value in recording the fair value of each position. Investments in alternative funds included in Other investments utilize strategies including arbitrage, directional, event driven and multi-style. These funds potentially have lockup and gate provisions which may limit redemption liquidity. For further details regarding the nature of Other investments and related features see Item 8, Note 7, "Other Investments," to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

(e) Derivative instruments

Derivative instruments recorded within Other liabilities and classified within Level 3 include credit derivatives sold providing protection on senior tranches of structured finance transactions where the value is obtained directly from the investment bank counterparty and sufficient information regarding the inputs utilized in such valuation was not obtained to support a Level 2 classification and guaranteed minimum income benefits 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 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 the "Funds withheld on 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.

(f) Financial Instruments Not Carried at Fair Value

Authoritative guidance over disclosures about the fair value of financial instruments requires additional disclosure of fair value information for financial instruments not carried at fair value in both interim and annual reporting periods. Certain financial instruments, particularly insurance contracts, are excluded from these fair value disclosure requirements. The carrying values of cash and cash equivalents, accrued investment income, net receivable from investments sold, other assets, net payable for investments purchased, other liabilities and other financial instruments not included below approximated their fair values. The following table includes financial instruments for which the carrying value differs from the estimated fair values at June 30, 2014 and December 31, 2013. All of these fair value estimates are considered Level 2 fair value measurements. The fair values for fixed maturities held to maturity are provided by third party pricing vendors and significant valuation inputs for all other items included were based upon market data obtained from sources independent of the Company, and are subject to the same control environment previously described.

(U.S. dollars in thousands)	June 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed maturities, held to maturity	\$—	\$—	\$2,858,695	\$3,131,235
Other investments - structured transactions	275,821	299,661	294,048	296,799
Financial Assets	\$275,821	\$299,661	\$3,152,743	\$3,428,034

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Deposit liabilities	\$1,288,376	\$1,520,108	\$1,509,243	\$1,718,394
Notes payable and debt	2,262,452	2,511,270	2,263,203	2,429,412
Financial Liabilities	\$3,550,828	\$4,031,378	\$3,772,446	\$4,147,806

As described in Note 3, "Sale of Life Reinsurance Subsidiary," certain fixed maturities were reclassified from held to maturity to available for sale. See also Note 6, "Investments" for further information.

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

Deposit liabilities include obligations under structured insurance and reinsurance transactions. For purposes of fair value disclosures, the Company determined the estimated fair value of the deposit liabilities by assuming a discount rate equal to the appropriate U.S. Treasury rate plus 45.5 basis points and 56.7 basis points at June 30, 2014 and December 31, 2013, 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 as described in Note 3, "Sale of Life Reinsurance Subsidiary", XLLR reinsures the majority of the Company's life reinsurance business through the Life Retro Arrangements. The Company no longer considers the Life Operations to be a separate operating segment and the results of the life run-off business are reported within "Corporate and Other." The Company's general investment and financing operations are also reflected in Corporate and Other. The run-off business subject to the Life Retro Arrangements was previously reported within the Company's Life operations segment. Prior period information has been re-presented to reflect the current presentation.

The Company evaluates the performance of both the Insurance and Reinsurance segments based on underwriting profit. Other items of revenue and expenditure of the Company are not evaluated at the segment level. In addition, the Company does not allocate investment assets 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. The following tables summarize the segment results for the three and six months ended June 30, 2014 and 2013:

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Three Months Ended June 30, 2014

(U.S. dollars in thousands, except ratios)	Insurance	Reinsurance	Total P&C	Corporate and Other (1)	Total
Gross premiums written	\$1,618,405	\$493,124	\$2,111,529	\$86,710	\$2,198,239
Net premiums written	996,880	436,446	1,433,326	58,518	1,491,844
Net premiums earned	1,003,990	434,086	1,438,076	58,518	1,496,594
Net losses and loss expenses	627,627	200,253	827,880	85,299	913,179
Acquisition costs	99,863	80,874	180,737	3,882	184,619
Operating expenses (2)	213,931	47,582	261,513	2,209	263,722
Underwriting profit (loss)	\$62,569	\$105,377	\$167,946	\$(32,872)	\$135,074
Net investment income - excluding Life Funds Withheld Assets			144,555	52,118	196,673
Net investment income - Life Funds Withheld Assets				19,165	19,165
Net results from structured products (3)	31,645	3,240	34,885	—	34,885
Net fee income and other (4)	(3,567)	) 664	(2,903)	) 45	(2,858)
Loss on sale of life reinsurance subsidiary			—	666,423	666,423
Net realized gains (losses) on investments - excluding Life Funds Withheld Assets			78,505	2,339	80,844
Net realized gains (losses) on investments - Life Funds Withheld Assets			—	(8,147)	(8,147)
Net realized and unrealized gains (losses) on derivative instruments			—	11,599	11,599
Net realized and unrealized gains (losses) on life retrocession embedded derivative			—	(17,546)	(17,546)
Net income (loss) from investment fund affiliates and operating affiliates (5)			—	45,421	45,421
Exchange (gains) losses			—	21,141	21,141
Corporate operating expenses			—	56,495	56,495
Contribution from P&C and Corporate and Other			422,988	(671,937)	(248,949)
Interest expense (6)				32,284	32,284
Non-controlling interests				3,682	3,682
Income tax expense				(5,654)	(5,654)
Net income (loss) attributable to ordinary shareholders					\$(279,261)
Ratios – P&C operations: (7)					
Loss and loss expense ratio	62.5	% 46.1	% 57.6	%	
Underwriting expense ratio	31.3	% 29.6	% 30.7	%	
Combined ratio	93.8	% 75.7	% 88.3	%	

- (1) Corporate and Other includes the Company's run-off life operations.
- (2) Operating expenses exclude Corporate operating expenses, shown separately.
The net results from structured products include net investment income and interest expense (credit) of \$16.9 million and \$(18.2) million, respectively. Net results from structured products includes a benefit of \$28.7 million
- (3) from a negotiated termination of one of the Company's larger structured indemnity contracts during the second quarter of 2014, producing a net interest expense credit.
- (4) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business.
- (5) The Company records the income related to the alternative funds and to the private investment and operating fund affiliates on a one-month and three-month lag, respectively.
- (6) Interest expense excludes interest expense related to deposit liabilities recorded in the Insurance and Reinsurance segments.
- (7) Ratios are based on net premiums earned from P&C operations.

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Three Months Ended June 30, 2013 (U.S. dollars in thousands, except ratios)	Insurance	Reinsurance	Total P&C	Corporate and Other (1)	Total
Gross premiums written	\$1,472,388	\$471,782	\$1,944,170	\$81,302	\$2,025,472
Net premiums written	1,049,163	410,809	1,459,972	73,896	1,533,868
Net premiums earned	1,058,542	429,955	1,488,497		