

XL GROUP PLC
Form 10-Q
November 07, 2012

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from _____ to _____

Commission file number 1-10804

XL GROUP

Public Limited Company

(Exact name of registrant as specified in its charter)

Ireland
(State or other jurisdiction of
incorporation or organization)

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

No. 1 Hatch Street Upper, 4th Floor, Dublin 2, Ireland
(Address of principal executive offices and zip code)

+353 (1) 405-2033

(Registrant's telephone number, including area code)

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

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

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

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 6, 2012, there were 300,605,273 outstanding Ordinary Shares, \$0.01 par value per share, of the registrant.

XL GROUP PLC

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

XL GROUP PLC

UNAUDITED CONSOLIDATED BALANCE SHEETS

<i>(U.S. dollars in thousands, except share data)</i>	September 30, 2012	December 31, 2011
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost: 2012: \$26,150,520; 2011: \$25,771,715)	\$ 27,426,293	\$ 26,190,025
Equity securities, at fair value (cost: 2012: \$554,962; 2011: \$480,685)	565,927	468,197
Short-term investments, at fair value (amortized cost: 2012: \$323,039; 2011: \$359,378)	323,705	359,063
	<hr/>	<hr/>
Total investments available for sale	\$ 28,315,925	\$ 27,017,285
Fixed maturities, held to maturity at amortized cost (fair value: 2012: \$3,222,900; 2011: \$2,895,688)	2,805,796	2,668,978
Investments in affiliates	1,027,122	1,052,729
Other investments	1,215,556	985,262
	<hr/>	<hr/>
Total investments	\$ 33,364,399	\$ 31,724,254
Cash and cash equivalents	3,197,305	3,825,125
Accrued investment income	365,516	331,758
Deferred acquisition costs	720,847	647,113
Ceded unearned premiums	721,465	596,895
Premiums receivable	2,791,807	2,411,611
Reinsurance balances receivable	225,251	220,017
Unpaid losses and loss expenses recoverable	3,319,266	3,654,948
Receivable from investments sold	45,328	59,727
Goodwill and other intangible assets	407,221	407,321
Deferred tax asset	132,931	115,601
Other assets	688,992	670,895
	<hr/>	<hr/>
Total assets	\$ 45,980,328	\$ 44,665,265
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Unpaid losses and loss expenses	\$ 20,074,668	\$ 20,613,901
Deposit liabilities	1,561,076	1,608,108
Future policy benefit reserves	4,848,734	4,845,394
Unearned premiums	4,081,557	3,555,310
Notes payable and debt	1,673,350	2,275,327
Reinsurance balances payable	508,177	90,552
Payable for investments purchased	281,630	58,494
Deferred tax liability	192,419	91,104
Other liabilities	1,001,298	770,945
	<hr/>	<hr/>
Total liabilities	\$ 34,222,909	\$ 33,909,135
Commitments and Contingencies		
Shareholders' Equity:	\$ 3,006	\$ 3,156

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Ordinary shares, 999,990,000 authorized, par value \$0.01; issued and outstanding: (2012: 300,580,557; 2011: 315,645,796)		
Additional paid in capital	8,630,377	8,938,679
Accumulated other comprehensive income	1,423,448	583,064
Retained earnings (deficit)	354,206	(113,241)
	<hr/>	<hr/>
Shareholders' equity attributable to XL Group plc	\$ 10,411,037	\$ 9,411,658
Non-controlling interest in equity of consolidated subsidiaries	1,346,382	1,344,472
	<hr/>	<hr/>
Total shareholders' equity	\$ 11,757,419	\$ 10,756,130
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 45,980,328	\$ 44,665,265
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See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<i>(U.S. dollars in thousands, except per share data)</i>				
Revenues:				
Net premiums earned	\$ 1,548,040	\$ 1,453,326	\$ 4,471,053	\$ 4,213,048
Net investment income	239,480	290,106	767,353	866,874
Realized investment gains (losses):				
Net realized gains (losses) on investments sold	7,136	4,461	64,704	(6,899)
Other-than-temporary impairments on investments	(10,295)	(67,513)	(45,028)	(141,321)
Other-than-temporary impairments on investments transferred to (from) other comprehensive income	(2,334)	698	(16,759)	9,885
Total net realized gains (losses) on investments	\$ (5,493)	\$ (62,354)	\$ 2,917	\$ (138,335)
Net realized and unrealized gains (losses) on derivative instruments	6,254	(26,916)	2,656	(34,299)
Income (loss) from investment fund affiliates	16,050	(7,123)	38,555	30,277
Fee income and other	13,153	10,980	34,121	30,494
Total revenues	\$ 1,817,484	\$ 1,658,019	\$ 5,316,655	\$ 4,968,059
Expenses:				
Net losses and loss expenses incurred	\$ 894,076	\$ 988,059	\$ 2,574,496	\$ 3,020,508
Claims and policy benefits	119,439	139,549	371,896	410,196
Acquisition costs	236,347	207,553	679,435	611,142
Operating expenses	305,746	247,815	887,209	774,949
Exchange (gains) losses	18,690	(39,425)	13,432	(38,409)
Interest expense	37,906	48,911	134,564	158,157
Total expenses	\$ 1,612,204	\$ 1,592,462	\$ 4,661,032	\$ 4,936,543
Income (loss) before income tax and income (loss) from operating affiliates	\$ 205,280	\$ 65,557	\$ 655,623	\$ 31,516
Income (loss) from operating affiliates	2,917	35,552	41,731	95,439
Provision (benefit) for income tax	451	24,718	51,813	16,747
Net income (loss)	\$ 207,746	\$ 76,391	\$ 645,541	\$ 110,208
Non-controlling interests	(35,844)	(33,993)	(75,855)	(69,431)
Net income (loss) attributable to XL Group plc and ordinary shareholders	\$ 171,902	\$ 42,398	\$ 569,686	\$ 40,777
Weighted average ordinary shares and ordinary share equivalents outstanding basic	304,199	311,714	309,675	310,793
Weighted average ordinary shares and ordinary share equivalents outstanding diluted	307,764	313,848	312,602	314,842
Earnings (loss) per ordinary share and ordinary share equivalent basic	\$ 0.57	\$ 0.14	\$ 1.84	\$ 0.13

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Earnings (loss) per ordinary share and ordinary share equivalent - diluted	\$	0.56	\$	0.14	\$	1.82	\$	0.13
		<u> </u>		<u> </u>		<u> </u>		<u> </u>

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<i>(U.S. dollars in thousands)</i>				
Net income (loss) attributable to XL Group plc	\$ 171,902	\$ 42,398	\$ 569,686	\$ 40,777
Change in net unrealized gains (losses) on investments, net of tax	456,642	110,124	778,299	291,330
Change in net unrealized gains (losses) on affiliate and other investments, net of tax	14,615	2,954	30,998	35,620
Change in OTTI losses recognized in other comprehensive income, net of tax	25,936	3,995	52,353	28,119
Change in underfunded pension liability	(2,026)	1,684	(2,033)	1,287
Change in value of cash flow hedge	110	110	330	330
Foreign currency translation adjustments	17,411	(85,635)	(19,563)	(1,278)
Comprehensive income (loss)	\$ 684,590	\$ 75,630	\$ 1,410,070	\$ 396,185

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC

UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	Nine Months Ended September 30,	
	2012	2011
<i>(U.S. dollars in thousands)</i>		
Ordinary Shares:		
Balance - beginning of year	\$ 3,156	\$ 3,165
Issuance of ordinary shares	9	307
Buybacks of ordinary shares	(162)	(267)
Exercise of stock options	3	1
Balance - end of period	\$ 3,006	\$ 3,206
Additional Paid in Capital:		
Balance - beginning of year	\$ 8,938,679	\$ 8,993,016
Issuance of ordinary shares	1,380	573,460
Buybacks of ordinary shares	(350,996)	(566,673)
Exercise of stock options, net of tax	4,784	1,195
Share based compensation expense	36,530	29,261
Balance - end of period	\$ 8,630,377	\$ 9,030,259
Accumulated Other Comprehensive Income (Loss):		
Balance - beginning of year	\$ 583,064	\$ 100,795
Change in net unrealized gains (losses) on investments, net of tax	778,299	291,330
Change in net unrealized gains (losses) on affiliate and other investments, net of tax	30,998	35,620
Change in OTTI losses recognized in other comprehensive income, net of tax	52,353	28,119
Change in underfunded pension liability	(2,033)	1,287
Change in value of cash flow hedge	330	330
Foreign currency translation adjustments	(19,563)	(1,278)
Balance - end of period	\$ 1,423,448	\$ 456,203
Retained Earnings (Deficit):		
Balance - beginning of year	\$ (113,241)	\$ 500,497
Net income (loss) attributable to XL Group plc	569,686	40,777
Dividends on ordinary shares	(102,239)	(104,020)
Balance - end of period	\$ 354,206	\$ 437,254
Non-controlling Interest in Equity of Consolidated Subsidiaries:		
Balance - beginning of year	\$ 1,344,472	\$ 1,002,296
Non-controlling interests - contribution	1,500	
Non-controlling interests	(63)	4
Non-controlling interest share in change in accumulated other comprehensive income (loss)	473	(16)
Purchase of Series E preference ordinary shares		(500)
Balance - end of period	\$ 1,346,382	\$ 1,001,784
Total Shareholders Equity	\$ 11,757,419	\$ 10,928,706

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(U.S. dollars in thousands)</i>	Nine Months Ended September 30,	
	2012	2011
Cash flows provided by (used in) operating activities:		
Net income (loss)	\$645,541	\$110,208
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Net realized (gains) losses on investments	(2,917)	138,335
Net realized and unrealized (gains) losses on derivative instruments	(2,656)	34,299
Amortization of premiums (discounts) on fixed maturities	119,819	83,252
(Income) loss from investment and operating affiliates	(80,286)	(125,716)
Share based compensation	41,827	32,043
Depreciation	41,735	36,544
Accretion of deposit liabilities	65,585	63,492
Unpaid losses and loss expenses	(609,175)	185,023
Future policy benefit reserves	(132,834)	(101,047)
Unearned premiums	524,341	615,699
Premiums receivable	(380,164)	(448,133)
Unpaid losses and loss expenses	354,698	(24,758)

recoverable		
Ceded unearned premiums	(121,791)	(233,148)
Reinsurance balances receivable	(5,146)	(9,422)
Deferred acquisition costs	(47,629)	(92,859)
Reinsurance balances payable	413,658	412,103
Deferred tax asset - net	24,058	(47,803)
Derivatives	49,567	(30,032)
Other assets	(51,039)	(67,851)
Other liabilities	108,067	(105,212)
Other	(61,079)	(59,500)
Total adjustments	\$248,639	\$255,309
Net cash provided by (used in) operating activities	\$894,180	\$365,517
Cash flows provided by (used in) investing activities:		
Proceeds from sale of fixed maturities and short-term investments	\$2,456,889	\$3,233,941
Proceeds from redemption of fixed maturities and short-term investments	3,212,626	2,700,412
Proceeds from sale of equity securities	212,034	189,818
Purchases of fixed maturities and short-term investments	(5,874,664)	(5,411,886)
Purchases of equity securities	(289,553)	(571,031)
Net dispositions of investment affiliates	58,415	166,950
Other investments, net	(113,538)	(39,502)
Net cash provided by (used in) investing activities	\$(337,791)	\$268,702
Cash flows provided by (used		

in) financing
activities:

Proceeds from issuance of ordinary shares and exercise of stock options	\$4,651	\$1,196
Buybacks of ordinary shares	(351,158)	(566,940)
Repurchase of Redeemable Series C preference ordinary shares	-	(71,801)
Repurchase of Series E preference ordinary shares	-	(465)
Dividends paid on ordinary shares	(101,753)	(103,331)
Distributions to non-controlling interests	(43,283)	(38,580)
Proceeds from issuance of debt	-	396,400
Contribution from non-controlling interest	1,500	-
Repayment of debt	(600,000)	-
Deposit liabilities	(114,376)	(116,472)
Net cash provided by (used in) financing activities	\$(1,204,419)	\$(499,993)
Effects of exchange rate changes on foreign currency cash	20,210	19,189
Increase (decrease) in cash and cash equivalents	\$(627,820)	\$153,415
Cash and cash equivalents - beginning of period	3,825,125	3,022,868
Cash and cash equivalents - end of period	\$3,197,305	\$3,176,283

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation and Consolidation

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

These unaudited consolidated financial statements include the accounts of the Company and all of its subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by GAAP for complete financial statements. In addition, the year-end balance sheet data 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 (consisting of normal recurring accruals) considered necessary for a fair statement of financial position and results of operations at the end of and for the periods presented. The results of operations for any interim period are not necessarily indicative of the results for a full year. All inter-company accounts and transactions have been eliminated. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates. 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, 2011.

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

2. Significant Accounting Policies

Recent Accounting Pronouncements

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

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

2. Significant Accounting Policies

Recent Accounting Pronouncements

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

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

In December 2011, the FASB issued new guidance requiring additional disclosures about financial instruments and derivative instruments that are either: (1) offset for balance sheet presentation purposes or (2) subject to an enforceable master netting arrangement or similar arrangement, regardless of whether they are offset for balance sheet presentation purposes. This guidance will be effective on January 1, 2013, with retrospective presentation of the new disclosures required. As this new guidance is disclosure-related only and does not amend the existing balance sheet offsetting guidance, the adoption of this guidance will not impact the Company's financial condition or results of operations or cash flows.

3. Fair Value Measurements

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

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

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. 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.

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

(a) Fair Value Summary

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

September 30, 2012 (U.S. dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Collateral and Counterparty Netting	Balance at September 30, 2012
Assets					
U.S. Government and Government - Related/Supported	\$	\$ 2,135,368	\$	\$	\$ 2,135,368
Corporate (1) (2)		9,978,002	29,135		10,007,137
Residential mortgage-backed securities Agency (RMBS - Agency)		5,343,046	33,857		5,376,903
Residential mortgage-backed securities Non-Agency (RMBS - Non-Agency)		628,486	7,839		636,325
Commercial mortgage-backed securities (CMBS)		1,001,040	33,369		1,034,409
Collateralized debt obligations (CDO)		7,773	674,793		682,566
Other asset-backed securities (2)		1,441,381	17,163		1,458,544
U.S. States and political subdivisions of the States		1,820,105			1,820,105
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported		4,274,936			4,274,936
Total fixed maturities, at fair value	\$	\$ 26,630,137	\$ 796,156	\$	\$ 27,426,293
Equity securities, at fair value (3)	230,539	335,388			565,927
Short-term investments, at fair value (1)(4)		323,705			323,705

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Total investments available for sale	\$ 230,539	\$ 27,289,230	\$ 796,156	\$	\$ 28,315,925
Cash equivalents (5)	2,037,971	321,646			2,359,617
Other investments (6)		783,813	119,975		903,788
Other assets (7)		10,611		41,540	52,151
Total assets accounted for at fair value	\$ 2,268,510	\$ 28,405,300	\$ 916,131	\$ 41,540	\$ 31,631,481

Liabilities

Financial instruments sold, but not yet purchased (8)	\$	\$ 30,944	\$	\$	\$ 30,944
Other liabilities (7)		82,009	35,062		117,071
Total liabilities accounted for at fair value	\$	\$ 112,953	\$ 35,062	\$	\$ 148,015

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value Measurements

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

(1) Included within Corporate are certain medium term notes supported primarily by pools of European investment grade credit with varying degrees of leverage. The notes, which are in a gross unrealized loss position, had a fair value of \$192.3 million and \$266.0 million and an amortized cost of \$199.8 million and \$297.7 million at September 30, 2012 and December 31, 2011, respectively. These notes allow the investor to participate in cash flows of the underlying bonds including certain residual values, which could serve to either decrease or increase the ultimate values of these notes.

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- (2) The Company invests in covered bonds issued by financial institutions (Covered Bonds). Covered Bonds are senior secured debt instruments issued by financial institutions and backed by over-collateralized pools of public sector or mortgage loans. At September 30, 2012, Covered Bonds within Total fixed maturities with a fair value of \$599.9 million are included within Other asset-backed securities to align the Company's classification to market indices. At December 31, 2011, Covered Bonds within Total fixed maturities with a fair value of \$353.9 million were reclassified from Corporate to Other asset-backed securities to conform to current period presentation.
- (3) Included within Equity securities are investments in fixed income funds with a fair value of \$99.3 million and \$91.6 million at September 30, 2012 and December 31, 2011, respectively.
- (4) Short-term investments consist primarily of Corporate securities and U.S. Government and Government-Related/Supported securities.
- (5) Cash equivalents balances subject to fair value measurement include certificates of deposit and money market funds. Operating cash balances are not subject to fair value measurement guidance.
- (6) The Other investments balance excludes certain structured transactions including certain investments in project finance transactions, a payment obligation and liquidity financing provided to a structured credit vehicle as a part of a third party medium term note facility. These investments, which totaled \$311.8 million at September 30, 2012 and \$323.7 million at December 31, 2011, are carried at amortized cost. For further details regarding the nature of Other investments and related features see Item 8, Note 7, Other Investments, to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011
- (7) Other assets and other liabilities include derivative instruments. The derivative balances included in each category are reported on a gross basis by level with a netting adjustment presented separately in the Collateral and Counterparty Netting column. The Company often enters into different types of derivative contracts with a single counterparty and these contracts are covered under a netting agreement. In addition, at September 30, 2012 the Company paid net cash collateral related to these derivative positions of \$41.5 million. The assets related to the net collateral paid have been recorded as Other assets within the balance sheet. At December 31, 2011, the Company held net cash collateral of \$77.1 million. The collateral balance is included within Cash and cash equivalents and the corresponding liability to return the collateral has been offset against the derivative asset within the balance sheet as appropriate under the netting agreement. The fair values of the individual derivative contracts are reported gross in their respective levels based on the fair value hierarchy.
- (8) Financial instruments sold, but not yet purchased, represent short sales and are included within Payable for investments purchased on the balance sheet.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value Measurements

(b) Level 3 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, 2012 and 2011 for all financial assets and liabilities measured at fair value using significant unobservable inputs (Level 3) at September 30, 2012 and 2011, respectively. The tables do not include gains or losses that were reported in Level 3 in prior periods for assets that were transferred out of Level 3 prior to September 30, 2012 and 2011. Gains and losses for assets and liabilities classified within Level 3 in the table below may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). Further, it should be noted that the following tables do not take into consideration the effect of offsetting Level 1 and 2 financial instruments entered into by the Company that are either economically hedged by certain exposures to the Level 3 positions or that hedge the exposures in Level 3 positions.

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

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

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value Measurements

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

<i>(U.S. dollars in thousands)</i>	Corporate	RMBS - Agency	RMBS - Non Agency	CMBS	CDO
Balance, beginning of period	\$ 33,511	\$ 52,588	\$ 1,596	\$	\$ 642,179
Realized gains (losses)	20	4	(22)		913
Movement in unrealized gains (losses)	673	106	(424)		35,886
Purchases and issuances		34	6,821	33,369	
Sales and settlements	(555)	(4,645)	(59)		(5,347)
Transfers into Level 3					1,162
Transfers out of Level 3	(4,514)	(14,230)	(73)		
Fixed maturities to short-term investments classification change					
Balance, end of period	\$ 29,135	\$ 33,857	\$ 7,839	\$ 33,369	\$ 674,793
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 674	\$ 110	\$ (447)	\$	\$ 35,806

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

<i>(U.S. dollars in thousands)</i>	Other asset-backed securities	Non-US Sovereign Government, Provincial, Supranational and Government Related/Supported	Short-term investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	\$ 25,248	\$	\$	\$ 117,765	\$ (35,947)
Realized gains (losses)	7,017			343	
Movement in unrealized gains (losses)	(6,552)			1,686	885
Purchases and issuances	8,753			982	
Sales and settlements	(16,141)			(807)	
Transfers into Level 3				6	
Transfers out of Level 3	(1,162)				
Fixed maturities to short-term investments classification change					
Balance, end of period	\$ 17,163	\$	\$	\$ 119,975	\$ (35,062)
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 456	\$	\$	\$ 1,334	\$ 885

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value Measurements

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

<i>(U.S. dollars in thousands)</i>	Corporate	RMBS - Agency	RMBS - Non Agency	CMBS	CDO
Balance, beginning of period	\$ 4,786	\$ 15,385	\$ 3,194	\$ 4,563	\$ 727,239
Realized gains (losses)	23	(81)	(328)	(501)	(2,662)
Movement in unrealized gains (losses)	(22)	52	76	564	(46,520)
Purchases and issuances		33			
Sales and settlements		(206)	(143)	(232)	(12,215)
Transfers into Level 3					
Transfers out of Level 3					
Fixed maturities to short-term investments classification change					
Balance, end of period	\$ 4,787	\$ 15,183	\$ 2,799	\$ 4,394	\$ 665,842
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 1	\$ (29)	\$ (252)	\$ 63	\$ (49,432)

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

<i>(U.S. dollars in thousands)</i>	Other asset-backed securities	Non-US Sovereign Government, Provincial, Supranational and Government Related/Supported	Short-term investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	\$ 17,048	\$	\$	\$ 114,540	\$ (49,645)
Realized gains (losses)	(238)			(244)	
Movement in unrealized gains (losses)	302			2,642	(2,344)
Purchases and issuances				1,667	
Sales and settlements				(4,243)	
Transfers into Level 3					
Transfers out of Level 3					
Fixed maturities to short-term investments classification change					
Balance, end of period	\$ 17,112	\$	\$	\$ 114,362	\$ (51,989)
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 64	\$	\$	\$ 2,398	\$ (2,344)

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value Measurements

Level 3 Assets and Liabilities - Nine Months Ended September 30, 2012

<i>(U.S. dollars in thousands)</i>	Corporate	RMBS - Agency	RMBS - Non Agency	CMBS	CDO
Balance, beginning of period	\$ 23,818	\$ 32,041	\$	\$	\$ 650,851
Realized gains (losses)	4	(23)			(523)
Movement in unrealized gains (losses)	346	58			75,489
Purchases and issuances	8,949	103	6,821	33,369	
Sales and settlements	(181)	(6,233)			(51,024)
Transfers into Level 3	838	15,254	1,018		
Transfers out of Level 3	(4,639)	(7,343)			
Fixed maturities to short-term investments classification change					
Balance, end of period	\$ 29,135	\$ 33,857	\$ 7,839	\$ 33,369	\$ 674,793
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 351	\$ 35	\$	\$	\$ 71,738

Level 3 Assets and Liabilities - Nine Months Ended September 30, 2012

<i>(U.S. dollars in thousands)</i>	Other asset-backed securities	Non-US Sovereign Government, Provincial, Supranational and Government Related/Supported	Short-term investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	\$ 16,552	\$	\$	\$ 113,959	\$ (42,644)
Realized gains (losses)	6,748			2,782	
Movement in unrealized gains (losses)	(2,873)			6,206	7,582
Purchases and issuances	8,753			4,664	
Sales and settlements	(15,867)			(7,327)	
Transfers into Level 3	3,850			6	
Transfers out of Level 3				(315)	
Fixed maturities to short-term investments classification change					
Balance, end of period	\$ 17,163	\$	\$	\$ 119,975	\$ (35,062)
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 3,652	\$	\$	\$ 2,385	\$ 7,582

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value Measurements

Level 3 Assets and Liabilities - Nine Months Ended September 30, 2011

<i>(U.S. dollars in thousands)</i>	Corporate	RMBS - Agency	RMBS - Non Agency	CMBS	CDO
Balance, beginning of period	\$ 36,866	\$ 30,255	\$ 4,964	\$ 1,623	\$ 721,572
Realized gains (losses)	(257)	(81)	(329)	(1,179)	(3,733)
Movement in unrealized gains (losses)	173	2	61	1,078	(10,104)
Purchases and issuances	6,878	33		3,155	2,379
Sales and settlements	(10,049)	(492)	(517)	(283)	(46,158)
Transfers into Level 3					1,886
Transfers out of Level 3	(28,824)	(14,534)	(1,380)		
Fixed maturities to short-term investments classification change					
Balance, end of period	\$ 4,787	\$ 15,183	\$ 2,799	\$ 4,394	\$ 665,842
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ (52)	\$ (79)	\$ (268)	\$ (855)	\$ (15,656)

Level 3 Assets and Liabilities - Nine Months Ended September 30, 2011

<i>(U.S. dollars in thousands)</i>	Other asset-backed securities	Non-US Sovereign Government, Provincial, Supranational and Government Related/Supported	Short-term investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	\$ 24,650	\$ 3,667	\$	\$ 133,717	\$ (39,195)
Realized gains (losses)	(555)			11,911	
Movement in unrealized gains (losses)	7,162			10,134	(12,620)
Purchases and issuances				9,782	
Sales and settlements	(9,114)			(51,182)	(174)
Transfers into Level 3					
Transfers out of Level 3	(5,031)	(3,667)			
Fixed maturities to short-term investments classification change					
Balance, end of period	\$ 17,112	\$	\$	\$ 114,362	\$ (51,989)
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 6,287	\$	\$	\$ 19,735	\$ (12,620)

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value Measurements**(c) Fixed maturities and short-term investments**

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

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

(d) Other investments

Included within the Other investments component of the Company's Level 3 valuations are private investments and alternative fund investments where the Company is not deemed to have significant influence over the investee. The fair value of these investments is based upon net asset values received from the investment manager or general partner of the respective entity. The nature of the underlying investments held by the investee that form the basis of the net asset value include assets such as private business ventures and are such that significant Level 3 inputs are utilized in the determination of the individual underlying holding values and, accordingly, the fair value of the Company's investment in each entity is classified within Level 3. The Company has not adjusted the net asset values received; however, management incorporates factors such as the most recent financial information received, annual audited financial statements and the values at which capital transactions with the investee take place when applying judgment regarding whether any adjustments should be made to the net asset value in recording the fair value of each position. Investments in alternative funds included in Other investments utilize strategies including arbitrage, directional, event driven and multi-style. These funds potentially have lockup and gate provisions which may limit redemption liquidity. For further details regarding the nature of Other investments and related features see Item 8, Note 7, Other Investments, to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

(e) Derivative instruments

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

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value Measurements

(f) Financial Instruments Not Carried at Fair Value

Authoritative guidance over disclosures about the fair value of financial instruments requires additional disclosure of fair value information for financial instruments not carried at fair value in both interim and annual reporting periods. Certain financial instruments, particularly insurance contracts, are excluded from these fair value disclosure requirements. The carrying values of cash and cash equivalents, accrued investment income, net receivable from investments sold, other assets, net payable for investments purchased, other liabilities and other financial instruments not included below approximated their fair values. The following table includes financial instruments for which the carrying value differs from the estimated fair values at September 30, 2012 and December 31, 2011. All of these fair values estimates are considered Level 2 fair value measurements. The fair values for fixed maturities held to maturity are provided by third party pricing vendors and significant valuation inputs for all other items included were based upon market data obtained from sources independent of the Company, and are subject to the same control environment previously described.

	September 30, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(U.S. dollars in thousands)</i>				
Fixed maturities, held to maturity	\$ 2,805,796	\$ 3,222,900	\$ 2,668,978	\$ 2,895,688
Other investments - structured transactions	311,767	287,136	323,705	297,124
Financial Assets	\$ 3,117,563	\$ 3,510,036	\$ 2,992,683	\$ 3,192,812
Deposit liabilities	\$ 1,561,076	\$ 1,885,194	\$ 1,608,108	\$ 1,809,812
Notes payable and debt	1,673,350	1,866,084	2,275,327	2,340,148
Financial Liabilities	\$ 3,234,426	\$ 3,751,278	\$ 3,883,435	\$ 4,149,960

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

Deposit liabilities include obligations under structured insurance and reinsurance transactions. For purposes of fair value disclosures, the Company determined the estimated fair value of the deposit liabilities by assuming a discount rate equal to the appropriate U.S. Treasury rate plus 102.3 basis points at September 30, 2012 and the appropriate U.S. Treasury rate plus 161.8 basis points at December 31, 2011. The discount rate incorporates the Company's own credit risk into the determination of estimated fair value.

The fair values of the Company's notes payable and debt outstanding were determined based on quoted market prices.

There are no significant concentrations of credit risk within the Company's financial instruments as defined in the authoritative guidance over disclosures of fair value of financial instruments not carried at fair value, which excludes certain financial instruments, particularly insurance contracts.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

4. Segment Information

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

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

Three Months Ended September 30, 2012

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

	Insurance	Reinsurance	Total P&C	Life Operations	Total
Gross premiums written	\$ 1,158,683	\$ 417,548	\$ 1,576,231	\$ 87,413	\$ 1,663,644
Net premiums written	905,054	403,210	1,308,264	79,487	1,387,751
Net premiums earned	985,623	482,930	1,468,553	79,487	1,548,040
Net losses and loss expenses	(623,543)	(270,533)	(894,076)	(119,439)	(1,013,515)
Acquisition costs	(128,514)	(97,739)	(226,253)	(10,094)	(236,347)
Operating expenses (1)	(186,794)	(47,227)	(234,021)	(2,352)	(236,373)
Underwriting profit (loss)	\$ 46,772	\$ 67,431	\$ 114,203	\$ (52,398)	\$ 61,805
Net investment income			148,482	73,479	221,961
Net results from structured products (2)	3,087	2,614	5,701		5,701
Net fee income and other (3)	591	657	1,248	240	1,488
Net realized gains (losses) on investments			2,257	(7,750)	(5,493)
Contribution from P&C and Life Operations			\$ 271,891	\$ 13,571	\$ 285,462
Corporate & other:					
Net realized & unrealized gains (losses) on derivative instruments					6,254
Net income (loss) from investment fund affiliates and operating affiliates (4)					18,967
Exchange gains (losses)					(18,690)
Corporate operating expenses					(57,604)
Interest expense (5)					(26,192)
Non-controlling interests					(35,844)
Income tax					(451)
Net income (loss) attributable to XL Group plc					\$ 171,902

Ratios P&C operations: (6)

Loss and loss expense ratio	63.3%	56.0%	60.9%
Underwriting expense ratio	32.0%	30.0%	31.3%
Combined ratio	95.3%	86.0%	92.2%

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- (1) Operating expenses exclude Corporate operating expenses, shown separately.
- (2) The net results from P&C structured products include net investment income and interest expense of \$17.4 million and \$11.7 million, respectively.
- (3) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business.
- (4) The Company records the income related to the alternative funds and to the private investment and operating fund affiliates on a one-month and three-month lag, respectively.
- (5) Interest expense excludes interest expense related to deposit liabilities recorded in the Insurance and Reinsurance segments.
- (6) Ratios are based on net premiums earned from P&C operations.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

4. Segment Information

Three Months Ended September 30, 2011

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

	Insurance	Reinsurance	Total P&C	Life Operations	Total
Gross premiums written	\$ 1,156,901	\$ 619,260	\$ 1,776,161	\$ 100,564	\$ 1,876,725
Net premiums written	872,757	419,949	1,292,706	90,769	1,383,475
Net premiums earned	930,067	432,465	1,362,532	90,794	1,453,326
Net losses and loss expenses	(767,091)	(220,968)	(988,059)	(139,549)	(1,127,608)
Acquisition costs	(118,521)	(79,839)	(198,360)	(9,193)	(207,553)
Operating expenses (1)	(158,134)	(40,179)	(198,313)	(2,352)	(200,665)
Underwriting profit (loss)	\$ (113,679)	\$ 91,479	\$ (22,200)	\$ (60,300)	\$ (82,500)
Net investment income			190,886	80,349	271,235
Net results from structured products (2)	2,457	3,388	5,845		5,845
Net fee income and other (3)	(3,484)	1,120	(2,364)	41	(2,323)
Net realized gains (losses) on investments			(39,047)	(23,307)	(62,354)
Contribution from P&C and Life Operations			\$ 133,120	\$ (3,217)	\$ 129,903
Corporate & other:					
Net realized & unrealized gains (losses) on derivative instruments					(26,916)
Net income (loss) from investment fund affiliates and operating affiliates (4)					28,429
Exchange gains (losses)					39,425
Corporate operating expenses					(33,847)
Interest expense (5)					(35,885)
Non-controlling interests					(33,993)
Income tax					(24,718)
Net income (loss) attributable to XL Group plc					\$ 42,398

Ratios P&C operations: (6)

Loss and loss expense ratio	82.5%	51.1%	72.5%
Underwriting expense ratio	29.7%	27.7%	29.1%
Combined ratio	112.2%	78.8%	101.6%

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

(2) The net results from P&C structured products include net investment income and interest expense of \$18.9 million and \$13.0 million, respectively.

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

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

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

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

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

4. Segment Information

Nine Months Ended September 30, 2012

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

	Insurance	Reinsurance	Total P&C	Life Operations	Total
Gross premiums written	\$ 3,806,351	\$ 1,850,315	\$ 5,656,666	\$ 267,000	\$ 5,923,666
Net premiums written	2,885,847	1,732,923	4,618,770	243,606	4,862,376
Net premiums earned	2,878,973	1,348,450	4,227,423	243,630	4,471,053
Net losses and loss expenses	(1,890,512)	(683,984)	(2,574,496)	(371,896)	(2,946,392)
Acquisition costs	(380,054)	(273,706)	(653,760)	(25,675)	(679,435)
Operating expenses (1)	(564,387)	(127,965)	(692,352)	(7,788)	(700,140)
Underwriting profit (loss)	\$ 44,020	\$ 262,795	\$ 306,815	\$ (161,729)	\$ 145,086
Net investment income			492,031	223,150	715,181
Net results from structured products (2)	14,953	(17,801)	(2,848)		(2,848)
Net fee income and other (3)	(3,276)	1,980	(1,296)	330	(966)
Net realized gains (losses) on investments			25,070	(22,153)	2,917
Contribution from P&C and Life Operations			\$ 819,772	\$ 39,598	\$ 859,370
Corporate & other:					
Net realized & unrealized gains (losses) on derivative instruments					2,656
Net income (loss) from investment fund affiliates and operating affiliates (4)					80,286
Exchange gains (losses)					(13,432)
Corporate operating expenses					(151,925)
Interest expense (5)					(79,601)
Non-controlling interests					(75,855)
Income tax					(51,813)
Net income (loss) attributable to XL Group plc					\$ 569,686

Ratios P&C operations: (6)

Loss and loss expense ratio	65.7%	50.7%	60.9%
Underwriting expense ratio	32.8%	29.8%	31.8%
Combined ratio	98.5%	80.5%	92.7%

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

(2) The net results from P&C structured products include net investment income and interest expense of \$52.2 million and \$55.0 million, respectively.

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

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

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

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

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

4. Segment Information

Nine Months Ended September 30, 2011

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

	Insurance	Reinsurance	Total P&C	Life Operations	Total
Gross premiums written	\$ 3,669,280	\$ 1,968,444	\$ 5,637,724	\$ 298,504	\$ 5,936,228
Net premiums written	2,684,938	1,628,109	4,313,047	272,635	4,585,682
Net premiums earned	2,713,430	1,226,923	3,940,353	272,695	4,213,048
Net losses and loss expenses	(2,163,786)	(856,722)	(3,020,508)	(410,196)	(3,430,704)
Acquisition costs	(340,048)	(244,813)	(584,861)	(26,281)	(611,142)
Operating expenses (1)	(488,837)	(129,362)	(618,199)	(7,241)	(625,440)
Underwriting profit (loss)	\$ (279,241)	\$ (3,974)	\$ (283,215)	\$ (171,023)	\$ (454,238)
Net investment income			570,504	239,382	809,886
Net results from structured products (2)	8,407	9,828	18,235		18,235
Net fee income and other (3)	(12,614)	2,505	(10,109)	178	(9,931)
Net realized gains (losses) on investments			(76,181)	(62,154)	(138,335)
Contribution from P&C and Life Operations			\$ 219,234	\$ 6,383	\$ 225,617
Corporate & other:					
Net realized & unrealized gains (losses) on derivative instruments					(34,299)
Net income (loss) from investment fund affiliates and operating affiliates (4)					125,716
Exchange gains (losses)					38,409
Corporate operating expenses					(109,105)
Interest expense (5)					(119,383)
Non-controlling interests					(69,431)
Income tax					(16,747)
Net income (loss) attributable to XL Group plc					\$ 40,777

Ratios P&C operations: (6)

Loss and loss expense ratio	79.7%	69.8%	76.7%
Underwriting expense ratio	30.6%	30.5%	30.5%
Combined ratio	110.3%	100.3%	107.2%

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

(2) The net results from P&C structured products include net investment income and interest expense of \$57.0 million and \$38.8 million, respectively.

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

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

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

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

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

4. Segment Information

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

Three Months Ended September 30, 2012

(U.S. dollars in thousands)

	Insurance	Reinsurance	Life Operations	Total
P&C Operations:				
Casualty - professional lines	\$ 345,722	\$ 47,874	\$	\$ 393,596
Casualty - other lines	181,265	81,798		263,063
Property catastrophe		113,167		113,167
Other property	140,858	170,856		311,714
Marine, energy, aviation and satellite	130,497	33,091		163,588
Other specialty lines (1)	185,622			185,622
Other (2)	1,659	36,144		37,803
Total P&C Operations	\$ 985,623	\$ 482,930	\$	\$ 1,468,553
Life Operations:				
Annuity	\$	\$	\$ 31,960	\$ 31,960
Other Life			47,527	47,527
Total Life Operations	\$	\$	\$ 79,487	\$ 79,487
Total	\$ 985,623	\$ 482,930	\$ 79,487	\$ 1,548,040

Three Months Ended September 30, 2011

(U.S. dollars in thousands)

P&C Operations:				
Casualty - professional lines	\$ 319,101	\$ 51,945	\$	\$ 371,046
Casualty - other lines	172,684	64,274		236,958
Property catastrophe		97,158		97,158
Other property	120,394	161,585		281,979
Marine, energy, aviation and satellite	138,290	32,162		170,452
Other specialty lines (1)	178,706			178,706
Other (2)	892	25,341		26,233
Total P&C Operations	\$ 930,067	\$ 432,465	\$	\$ 1,362,532
Life Operations:				
Annuity	\$	\$	\$ 33,342	\$ 33,342
Other Life			57,452	57,452
Total Life Operations	\$	\$	\$ 90,794	\$ 90,794
Total	\$ 930,067	\$ 432,465	\$ 90,794	\$ 1,453,326

(1)

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Other specialty lines within the Insurance segment includes: environmental, programs, equine, warranty, fine art and specie, middle markets, political risk and trade credit, product recall, surety, inland marine and surplus lines.

- (2) Other includes whole account contracts, structured indemnity, internal reinsurance and other lines.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

4. Segment Information

Nine Months Ended September 30, 2012

(U.S. dollars in thousands)

	<u>Insurance</u>	<u>Reinsurance</u>	<u>Life Operations</u>	<u>Total</u>
P&C Operations:				
Casualty - professional lines	\$ 1,000,417	\$ 156,082	\$	\$ 1,156,499
Casualty - other lines	516,185	231,879		748,064
Property catastrophe		329,313		329,313
Other property	399,170	451,625		850,795
Marine, energy, aviation and satellite	394,578	104,462		499,040
Other specialty lines (1)	559,826			559,826
Other (2)	8,797	75,089		83,886
	<u>2,878,973</u>	<u>1,348,450</u>		<u>4,227,423</u>
Total P&C Operations	\$ 2,878,973	\$ 1,348,450	\$	\$ 4,227,423
Life Operations:				
Annuity	\$	\$	\$ 94,660	\$ 94,660
Other Life			148,970	148,970
	<u></u>	<u></u>	<u>243,630</u>	<u>243,630</u>
Total Life Operations	\$	\$	\$ 243,630	\$ 243,630
	<u></u>	<u></u>	<u>243,630</u>	<u>4,471,053</u>
Total	\$ 2,878,973	\$ 1,348,450	\$ 243,630	\$ 4,471,053

Nine Months Ended September 30, 2011

(U.S. dollars in thousands)

	<u>Insurance</u>	<u>Reinsurance</u>	<u>Life Operations</u>	<u>Total</u>
P&C Operations:				
Casualty - professional lines	\$ 957,399	\$ 157,576	\$	\$ 1,114,975
Casualty - other lines	501,634	184,238		685,872
Property catastrophe		286,085		286,085
Other property	344,403	433,083		777,486
Marine, energy, aviation and satellite	392,183	101,026		493,209
Other specialty lines (1)	512,399			512,399
Other (2)	5,412	64,915		70,327
	<u>2,713,430</u>	<u>1,226,923</u>		<u>3,940,353</u>
Total P&C Operations	\$ 2,713,430	\$ 1,226,923	\$	\$ 3,940,353
Life Operations:				
Annuity	\$	\$	\$ 100,232	\$ 100,232
Other Life			172,463	172,463
	<u></u>	<u></u>	<u>272,695</u>	<u>272,695</u>
Total Life Operations	\$	\$	\$ 272,695	\$ 272,695
	<u></u>	<u></u>	<u>272,695</u>	<u>4,213,048</u>
Total	\$ 2,713,430	\$ 1,226,923	\$ 272,695	\$ 4,213,048

(1) Other specialty lines within the Insurance segment includes: environmental, programs, equine, warranty, fine art and specie, middle markets, political risk and trade credit, product recall, surety, inland marine and surplus lines.

(2) Other includes whole account contracts, structured indemnity, internal reinsurance and other lines.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

5. Investments

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

Amortized Cost and Fair Value Summary

The cost (amortized cost for fixed maturities and short-term investments), fair value, gross unrealized gains and gross unrealized (losses), including, other-than-temporary impairments (OTTI) recorded in accumulated other comprehensive income (AOCI) of the Company s available for sale (AFS) and held to maturity (HTM) investments at September 30, 2012 and December 31, 2011 were as follows:

September 30, 2012 (U.S. dollars in thousands)	Included in AOCI				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
			Related to Changes in Estimated Fair Value	Non-credit Related OTTI	
Fixed maturities - AFS					
U.S. Government and Government-Related/Supported (1)	\$ 1,996,119	\$ 142,683	\$ (3,434)	\$	\$ 2,135,368
Corporate (2) (3) (4)	9,392,587	738,040	(109,187)	(14,303)	10,007,137
RMBS Agency	5,126,903	252,738	(2,738)		5,376,903
RMBS Non-Agency	705,785	38,297	(2,716)	(105,041)	636,325
CMBS	963,365	75,031	(1,123)	(2,864)	1,034,409
CDO	791,737	9,735	(114,017)	(4,889)	682,566
Other asset-backed securities (2)	1,421,005	57,025	(12,573)	(6,913)	1,458,544
U.S. States and political subdivisions of the States	1,665,392	156,366	(1,653)		1,820,105
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported (1)	4,087,627	196,732	(9,423)		4,274,936
Total fixed maturities - AFS	\$ 26,150,520	\$ 1,666,647	\$ (256,864)	\$ (134,010)	\$ 27,426,293
Total short-term investments (1)	\$ 323,039	\$ 1,124	\$ (458)	\$	\$ 323,705
Total equity securities	\$ 554,962	\$ 16,218	\$ (5,253)	\$	\$ 565,927
Total investments - AFS	\$ 27,028,521	\$ 1,683,989	\$ (262,575)	\$ (134,010)	\$ 28,315,925
Fixed maturities - HTM					
U.S. Government and Government-Related/Supported (1)	\$ 10,845	\$ 1,859	\$	\$	\$ 12,704
Corporate (2)	1,430,220	192,803	(2,932)		1,620,091
RMBS Non-Agency	83,896	9,582			93,478
CMBS	12,917	2,109			15,026
Other asset-backed securities (2)	224,508	29,218	(295)		253,431
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported (1)	1,043,410	187,562	(2,802)		1,228,170
Total investments - HTM	\$ 2,805,796	\$ 423,133	\$ (6,029)	\$	\$ 3,222,900

-
- (1) U.S. Government and Government-Related/Supported, Non-U.S. Sovereign Government, Provincials, Supranationals and Government-Related/Supported and Total short-term investments includes government-related securities with an amortized cost of \$2,182.5 million and fair value of \$2,258.6 million and U.S. Agencies with an amortized cost of \$453.8 million and fair value of \$499.5 million.
 - (2) At September 30, 2012, Covered Bonds within Fixed maturities AFS with an amortized cost of \$561.5 million and a fair value of \$599.9 million and Covered Bonds within Fixed maturities HTM with an amortized cost of \$8.4 million and a fair value of \$8.3 million have been included within Other asset-backed securities to align the Company's classification to market indices. Covered Bonds were included in Corporate prior to January 1, 2012.
 - (3) Included within Corporate are certain medium term notes supported primarily by pools of European investment grade credit with varying degrees of leverage. The notes have a fair value of \$192.3 million and an amortized cost of \$199.8 million. 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.
 - (4) Included within Corporate are Tier One and Upper Tier Two securities, representing committed term debt and hybrid instruments, which are senior to the common and preferred equities of the financial institutions. These securities have a fair value of \$348.8 million and an amortized cost of \$402.1 million at September 30, 2012.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

5. Investments

December 31, 2011 (U.S. dollars in thousands)	Included in AOCI				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
			Related to Changes in Estimated Fair Value	Non-credit Related OTTI	
Fixed maturities - AFS					
U.S. Government and Government-Related/Supported (1)	\$ 1,864,354	\$ 130,874	\$ (4,245)	\$	\$ 1,990,983
Corporate (2) (3) (4)	9,866,677	527,192	(233,581)	(51,666)	10,108,622
RMBS Agency	5,189,473	193,782	(3,849)		5,379,406
RMBS Non-Agency	851,557	19,667	(112,867)	(116,542)	641,815
CMBS	927,684	56,704	(2,405)	(7,148)	974,835
CDO	843,553	6,624	(186,578)	(4,997)	658,602
Other asset-backed securities (2)	1,341,309	30,731	(25,486)	(6,305)	1,340,249
U.S. States and political subdivisions of the States	1,698,573	101,025	(2,220)		1,797,378
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported (1)	3,188,535	127,439	(17,839)		3,298,135
Total fixed maturities - AFS	\$ 25,771,715	\$ 1,194,038	\$ (589,070)	\$ (186,658)	\$ 26,190,025
Total short-term investments (1)	\$ 359,378	\$ 519	\$ (834)	\$	\$ 359,063
Total equity securities	\$ 480,685	\$ 27,947	\$ (40,435)	\$	\$ 468,197
Total investments - AFS	\$ 26,611,778	\$ 1,222,504	\$ (630,339)	\$ (186,658)	\$ 27,017,285
Fixed maturities - HTM					
U.S. Government and Government-Related/Supported (2)	\$ 10,399	\$ 1,510	\$	\$	\$ 11,909
Corporate (2)	1,290,209	91,313	(14,433)		1,367,089
RMBS Non-Agency	80,955	6,520	(32)		87,443
Other asset-backed securities (2)	288,741	20,875	(320)		309,296
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported (1)	998,674	127,227	(5,950)		1,119,951
Total investments - HTM	\$ 2,668,978	\$ 247,445	\$ (20,735)	\$	\$ 2,895,688

- (1) U.S. Government and Government-Related/Supported, Non-U.S. Sovereign Government, Provincials, Supranationals and Government-Related/Supported and Total short-term investments includes government-related securities with an amortized cost of \$1,878.3 million and fair value of \$1,915.6 million and U.S. Agencies with an amortized cost of \$494.0 million and fair value of \$541.2 million.
- (2) Covered Bonds within Fixed maturities - AFS with an amortized cost of \$345.4 million and a fair value of \$353.9 million and Covered Bonds within Fixed maturities - HTM with an amortized cost of \$8.1 million and a fair value of \$7.7 million at December 31, 2011 have been reclassified from Corporate to Other asset-backed securities to align the Company's classification to market indices and conform to current period presentation.
- (3)

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Included within Corporate are certain medium term notes supported primarily by pools of European investment grade credit with varying degrees of leverage. The notes have a fair value of \$266.0 million and an amortized cost of \$297.7 million. 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.

- (4) Included within Corporate are Tier One and Upper Tier Two securities, representing committed term debt and hybrid instruments, which are senior to the common and preferred equities of the financial institutions. These securities have a fair value of \$386.1 million and an amortized cost of \$494.9 million at December 31, 2011.

At September 30, 2012 and December 31, 2011, approximately 2.7% and 2.4%, respectively, of the Company's fixed income investment portfolio at fair value was invested in securities that were below investment grade or not rated. Approximately 36.2% and 31.4% of the gross unrealized losses in the Company's fixed income securities portfolio at September 30, 2012 and December 31, 2011, respectively, related to securities that were below investment grade or not rated.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

5. Investments*Classification of Fixed Income Securities*

During the third quarter of 2011, the Company changed the manner in which it classifies fixed income securities between Fixed maturities and Short-term investments on the balance sheet and the related note disclosure. Short-term investments under the Company's previous classification comprised investments with a remaining maturity of less than one year from the reporting date. Under this prior presentation, longer term securities were reclassified from Fixed maturities to Short-term investments as they neared maturity. Under the Company's new classification, Short-term investments include investments due to mature within one year from the date of purchase and are valued using the same external factors and in the same manner as Fixed maturities. No reclassifications will be made between Fixed maturities and Short-term investments subsequent to the initial date of purchase.

This change in classification did not have an impact on the total value of investments available for sale on the balance sheet, nor did it impact the consolidated statements of income, comprehensive income, shareholders' equity or cash flows. The only impact, other than the changes in the balance sheet line items, are changes required within the detailed tables included within this note as well as Note 3, Fair Value Measurements, to allocate securities previously classified as Short-term investments under the former practice into the appropriate categories of Fixed maturities within each table to conform to the new accounting presentation for current and comparative periods.

During 2009 and 2010, the Company elected to hold certain fixed income securities to maturity. Consistent with this intention, the Company reclassified these securities from AFS to HTM in the consolidated financial statements. As a result of this classification, these fixed income securities are reflected in the HTM portfolio and recorded at amortized cost in the consolidated balance sheets and not fair value. Additional subsequent securities purchased that have already been designated as HTM are included as part of the HTM portfolio. The HTM portfolio is comprised of long duration Euro and U.K. sterling securities. The Company believes this HTM strategy is achievable due to the relatively stable and predictable cash flows of the Company's long-term liabilities within its Life operations, along with its ability to substitute other assets at a future date in the event that liquidity was required due to changes in expected cash flows or other transactions entered into related to the long-term liabilities supported by the HTM portfolio. At September 30, 2012, 96.5% of the HTM securities were rated A or higher. The unrealized appreciation at the dates of these reclassifications continues to be reported as a separate component of shareholders' equity and is being amortized over the remaining lives of the securities as an adjustment to yield in a manner consistent with the amortization of any premium or discount. At the time of the reclassifications, the unrealized U.S. dollar equivalent appreciation related to securities reclassified was \$131.5 million in total, with \$107.0 million and \$108.4 million unamortized at September 30, 2012 and December 31, 2011, respectively.

Covered Bonds were included within Corporate securities prior to January 1, 2012. They are now classified as Other asset-backed securities to align the Company's classification to market indices. At December 31, 2011, Covered Bonds with a fair value of \$353.9 million have been reclassified from Corporate to Other asset-backed securities to conform to current period presentation.

Contractual Maturities Summary

The contractual maturities of AFS and HTM fixed income securities at September 30, 2012 and December 31, 2011 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

5. Investments

	September 30, 2012 (1)		December 31, 2011 (1)	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<i>(U.S. dollars in thousands)</i>				
Fixed maturities - AFS				
Due less than one year	\$ 2,165,727	\$ 2,176,654	\$ 2,004,395	\$ 2,020,361
Due after 1 through 5 years	8,413,665	8,787,679	7,736,717	7,909,354
Due after 5 through 10 years	4,252,492	4,609,302	3,619,141	3,777,073
Due after 10 years	2,309,841	2,663,911	3,257,886	3,488,330
	<u>\$ 17,141,725</u>	<u>\$ 18,237,546</u>	<u>\$ 16,618,139</u>	<u>\$ 17,195,118</u>
RMBS Agency	5,126,903	5,376,903	5,189,473	5,379,406
RMBS Non-Agency	705,785	636,325	851,557	641,815
CMBS	963,365	1,034,409	927,684	974,835
CDO	791,737	682,566	843,553	658,602
Other asset-backed securities	1,421,005	1,458,544	1,341,309	1,340,249
	<u>\$ 9,008,795</u>	<u>\$ 9,188,747</u>	<u>\$ 9,153,576</u>	<u>\$ 8,994,907</u>
Total mortgage and asset-backed securities				
	<u>\$ 26,150,520</u>	<u>\$ 27,426,293</u>	<u>\$ 25,771,715</u>	<u>\$ 26,190,025</u>
Fixed maturities - HTM				
Due less than one year	\$ 25,392	\$ 25,615	\$ 11,796	\$ 11,768
Due after 1 through 5 years	171,077	180,080	122,091	123,871
Due after 5 through 10 years	407,520	447,813	393,865	402,424
Due after 10 years	1,880,486	2,207,457	1,771,530	1,960,886
	<u>\$ 2,484,475</u>	<u>\$ 2,860,965</u>	<u>\$ 2,299,282</u>	<u>\$ 2,498,949</u>
RMBS Non-Agency	83,896	93,478	80,955	87,443
CMBS	12,917	15,026		
Other asset-backed securities	224,508	253,431	288,741	309,296
	<u>\$ 321,321</u>	<u>\$ 361,935</u>	<u>\$ 369,696</u>	<u>\$ 396,739</u>
Total mortgage and asset-backed securities				
	<u>\$ 2,805,796</u>	<u>\$ 3,222,900</u>	<u>\$ 2,668,978</u>	<u>\$ 2,895,688</u>

- (1) Included in the table above are Tier One and Upper Tier Two securities, representing committed term debt and hybrid instruments, which are senior to the common and preferred equities of the financial institutions, at their fair value of \$348.8 million and \$386.1 million at September 30, 2012 and December 31, 2011, respectively. These securities are reflected in the table based on their call date and have net unrealized losses of \$53.3 million and \$108.8 million at September 30, 2012 and December 31, 2011, respectively.

OTTI Considerations

Under final authoritative accounting guidance, a debt security for which amortized cost exceeds fair value is deemed to be other-than-temporarily impaired if it meets either of the following conditions: (a) the Company intends to sell, or it is more likely than not that the Company will be required to sell, the security before a recovery in value, or (b) the Company does not expect to recover the entire amortized cost basis of the security. Other than in a situation in which the Company has the intent to sell a debt security or more likely than not will be

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required to sell a debt security, the amount of the OTTI related to a credit loss on the security is recognized in earnings, and the amount of the OTTI related to other factors (e.g., interest rates, market conditions, etc.) is recorded as a component of OCI. The net amount recognized in earnings (credit loss impairments) represents the difference between the amortized cost of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment (NPV). The remaining difference between the security's NPV and its fair value is recognized in OCI. Subsequent changes in the fair value of these securities are included in OCI unless a further impairment is deemed to have occurred.

In the scenario where the Company has the intent to sell a security in which its amortized cost exceeds its fair value, or it is more likely than not it will be required to sell such a security, the entire difference between the security's amortized cost and its fair value is recognized in earnings.

The determination of credit losses is based on detailed analyses of underlying cash flows. Such analyses require the use of certain assumptions to develop the estimated performance of underlying collateral. Key assumptions used include, but are not limited to, items such as RMBS default rates based on collateral duration in arrears, severity of losses on default by collateral class, collateral reinvestment rates and expected future general corporate default rates.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

5. Investments

Factors consid