XL GROUP PLC
Form 10-Q
August 10, 2015
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, 2015
	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.)

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 5, 2015, there were 302,314,373 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

(U.S. dollars in thousands, except share data)	June 30, 2015	December 31, 2014
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost: 2015, $32,699,709; 2014, $27,728,771)	$33,767,991	$29,359,034
Equity securities, at fair value (cost: 2015, $964,038; 2014, $763,833)	1,073,470	868,292
Short-term investments, at fair value (amortized cost: 2015, $806,990; 2014, $257,221)	807,486	256,727
Total investments available for sale	$35,648,947	$30,484,053
Fixed maturities, at fair value (amortized cost: 2015, $768,492; 2014, $1,180)	$748,931	$1,171
Short-term investments, at fair value (amortized cost: 2015, $42,557; 2014, nil)	42,553	—
Total investments trading	$791,484	$1,171
Investments in affiliates	1,663,852	1,637,620
Other investments	1,743,259	1,248,439
Total investments	$39,847,542	$33,371,283
Cash and cash equivalents	2,840,841	2,521,814
Restricted cash	135,638	—
Accrued investment income	312,856	315,964
Deferred acquisition costs and value of business acquired	1,121,362	354,533
Ceded unearned premiums	2,433,462	952,525
Premiums receivable	5,933,368	2,473,736
Reinsurance balances receivable	371,807	131,519
Unpaid losses and loss expenses recoverable	5,155,612	3,429,368
Receivable from investments sold	118,415	92,762
Goodwill and other intangible assets	2,205,911	447,952
Deferred tax asset	204,155	204,491
Other assets	1,069,737	750,872
Total assets	$61,750,706	$45,046,819
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss expenses	$25,840,381	$19,353,243
Deposit liabilities	1,212,206	1,245,367
Future policy benefit reserves	4,494,886	4,707,199
Funds withheld on life retrocession arrangements (net of future policy benefit reserves recoverable: 2015, $4,054,705; 2014, $4,265,678)	915,116	1,155,016
Unearned premiums	8,548,841	3,973,132
Notes payable and debt	2,726,455	1,662,580
Reinsurance balances payable	2,494,201	493,230
Payable for investments purchased	149,249	42,291
Deferred tax liability	144,044	66,246
Other liabilities	1,020,222	912,749

Total liabilities	$47,545,601	$33,611,053
Commitments and Contingencies		
Shareholders' Equity:		
Ordinary shares, 999,990,000 authorized, par value $0.01; issued and outstanding (2015, 303,891,887; 2014, 255,182,955)	$3,039	$2,552
Additional paid in capital	9,153,868	7,359,102
Accumulated other comprehensive income	1,076,174	1,484,458
Retained earnings	2,014,217	1,187,639
Shareholders' equity attributable to XL Group plc	$12,247,298	$10,033,751
Non-controlling interest in equity of consolidated subsidiaries	1,957,807	1,402,015
Total shareholders' equity	$14,205,105	$11,435,766
Total liabilities and shareholders' equity	$61,750,706	$45,046,819

See accompanying Notes to Unaudited Consolidated Financial Statements

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XL GROUP PLC
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(U.S. dollars in thousands, except per share data)	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
Revenues:				
Net premiums earned	$2,082,053	$1,496,594	$3,416,053	$2,985,433
Net investment income:				
Net investment income - excluding Life Funds Withheld Assets	176,340	213,608	334,434	446,797
Net investment income - Life Funds Withheld Assets	46,864	19,165	97,283	19,165
Total net investment income	$223,204	$232,773	$431,717	$465,962
Net realized gains (losses) on investments, and net unrealized gains (losses) on investments trading securities ("Trading") - Life Funds Withheld Assets:				
Net realized gains (losses) on investments sold - excluding Life Funds Withheld Assets	20,939	105,460	36,117	128,416
Other-than-temporary impairments ("OTTI") on investments - excluding Life Funds Withheld Assets	(16,520)	(24,362)	(27,035)	(26,638)
OTTI on investments transferred to (from) other comprehensive income - excluding Life Funds Withheld Assets	(68)	(254)	(129)	(1,705)
Net realized gains (losses) on investments sold - Life Funds Withheld Assets	68,037	624	120,775	624
OTTI on investments - Life Funds Withheld Assets	(2,878)	(8,771)	(8,087)	(8,771)
Net unrealized gains (losses) on investments Trading - Life Funds Withheld Assets	(19,543)	—	(18,783)	—
Total net realized gains (losses) on investments, and net unrealized gains (losses) on investments Trading - Life Funds Withheld Assets	$49,967	$72,697	$102,858	$91,926
Net realized and unrealized gains (losses) on derivative instruments	48,509	11,599	65,030	13,409
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	239,174	(17,546)	9,807	(17,546)
Income (loss) from investment fund affiliates	31,377	17,683	66,706	50,986
Fee income and other	11,012	9,706	15,740	21,160
Total revenues	$2,685,296	$1,823,506	$4,107,911	$3,611,330
Expenses:				
Net losses and loss expenses incurred	$1,151,195	$827,880	$1,921,022	$1,659,385
Claims and policy benefits	22,081	85,299	41,468	198,886
Acquisition costs	341,617	184,619	495,313	384,033
Operating expenses	507,354	333,029	833,010	643,453
Foreign exchange (gains) losses	10,374	21,141	37,764	31,582
Loss on sale of life reinsurance subsidiary	—	666,423	—	666,423
Interest expense	49,667	14,085	101,105	57,026
Total expenses	$2,082,288	$2,132,476	$3,429,682	$3,640,788
Income (loss) before income tax and income (loss) from operating affiliates	$603,008	$(308,970)	$678,229	$(29,458)

Income (loss) from operating affiliates	9,462	27,738	32,130	74,023
Gain on sale of operating affiliate	340,407	—	340,407	—
Provision (benefit) for income tax	32,959	(5,654)	57,177	28,667
Net income (loss)	$919,918	$(275,578)	$993,589	$15,898
Non-controlling interests	4,879	3,682	42,269	39,441
Net income (loss) attributable to ordinary shareholders	$915,039	$(279,260)	$951,320	$(23,543)
Weighted average ordinary shares and ordinary share equivalents outstanding, in thousands – basic	289,420	270,924	272,665	273,616
Weighted average ordinary shares and ordinary share equivalents outstanding, in thousands – diluted	293,983	270,924	277,473	273,616
Earnings (loss) per ordinary share and ordinary share equivalent – basic	$3.16	$(1.03)	$3.49	$(0.09)
Earnings (loss) per ordinary share and ordinary share equivalent – diluted	$3.11	$(1.03)	$3.43	$(0.09)

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
(U.S. dollars in thousands)	2015	2014	2015	2014
Net income (loss) attributable to ordinary shareholders	$915,039	$(279,260)	$951,320	$(23,543)
Change in net unrealized gains (losses) on investments - excluding Life Funds Withheld Assets, net of tax	(318,935)	260,690	(258,590)	502,080
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	26,328	(440,461)	86,684	(474,465)
Change in net unrealized gains (losses) on investments - Life Funds Withheld Assets, net of tax	(321,046)	12,297	(283,931)	12,297
Change in net unrealized gains (losses) on affiliate and other investments, net of tax	18,822	10,850	34,687	13,973
Change in OTTI losses recognized in other comprehensive income, net of tax	1,575	1,636	11,433	4,932
Change in underfunded pension liability, net of tax	(1,329)	(8)	(354)	(39)
Change in value of cash flow hedge	12	110	107	220
Foreign currency translation adjustments, net of tax	(34,423)	(9,602)	1,680	(13,482)
Comprehensive income (loss)	$286,043	$(18,887)	$543,036	$446,834

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, 2015	2014
Ordinary Shares:		
Balance - beginning of year	$2,552	$2,783
Issuance of ordinary shares	515	11
Buybacks of ordinary shares	(30)	(113)
Exercise of stock options	2	2
Balance - end of period	$3,039	$2,683
Additional Paid in Capital:		
Balance - beginning of year	$7,359,102	$7,994,100
Issuance of ordinary shares	1,851,705	14
Buybacks of ordinary shares	(85,796)	(323,455)
Exercise of stock options	4,826	3,055
Share-based compensation	24,031	26,663
Balance - end of period	$9,153,868	$7,700,377
Accumulated Other Comprehensive Income (Loss):		
Balance - beginning of year	$1,484,458	$736,657
Change in net unrealized gains (losses) on investments - excluding Life Funds Withheld Assets, net of tax	(258,590)	502,080
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	86,684	(474,465)
Change in net unrealized gains (losses) on investments - Life Funds Withheld Assets, net of tax	(283,931)	12,297
Change in net unrealized gains (losses) on affiliate and other investments, net of tax	34,687	13,973
Change in OTTI losses recognized in other comprehensive income, net of tax	11,433	4,932
Change in underfunded pension liability, net of tax	(354)	(39)
Change in value of cash flow hedge	107	220
Foreign currency translation adjustments, net of tax	1,680	(13,482)
Balance - end of period	$1,076,174	$1,207,034
Retained Earnings (Deficit):		
Balance - beginning of year	$1,187,639	$1,264,093
Net income (loss) attributable to ordinary shareholders	951,320	(23,543)
Dividends on ordinary shares	(91,133)	(88,270)
Buybacks of ordinary shares	(26,559)	(28,085)
Share-based compensation	(7,050)	—
Balance - end of period	$2,014,217	$1,124,195
Non-controlling Interest in Equity of Consolidated Subsidiaries:		
Balance - beginning of year	$1,402,015	$1,351,665
Non-controlling interests - contributions	4,659	21,494
Non-controlling interests - distributions	(15,026)	—
Non-controlling interests - acquired	562,285	—
Non-controlling interests	3,874	1,129
Balance - end of period	$1,957,807	$1,374,288
Total Shareholders' Equity	$14,205,105	$11,408,577

See accompanying Notes to Unaudited Consolidated Financial Statements

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XL GROUP PLC
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
(U.S. dollars in thousands)	2015	2014
Cash flows provided by (used in) operating activities:		
Net income (loss)	$993,589	$15,898
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Total net realized (gains) losses on investments and net unrealized (gains) losses on investments, Trading - Life Funds Withheld Assets	(102,858)	(91,926)
Net realized and unrealized (gains) losses on derivative instruments	(65,030)	(13,409)
Net realized and unrealized (gains) losses on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	(9,807)	17,546
Amortization of premiums (discounts) on fixed maturities	77,334	76,846
(Income) loss from investment and operating affiliates	(78,257)	(68,292)
Loss on sale of life reinsurance subsidiary	—	666,423
Gain on sale of ARX Holding Corp.	(340,407)	—
Share-based compensation	39,641	40,563
Depreciation	29,349	29,107
Accretion of deposit liabilities	20,887	(7,762)
Changes in:		
Unpaid losses and loss expenses	(166,007)	(264,804)
Future policy benefit reserves	(122,842)	(93,202)
Funds withheld on life retrocession arrangements, net	(156,411)	(52,104)
Unearned premiums	868,244	848,937
Premiums receivable	(959,771)	(792,588)
Unpaid losses and loss expenses recoverable	(255,432)	136,758
Ceded unearned premiums	(343,391)	(338,855)
Reinsurance balances receivable	56,825	(28,270)
Deferred acquisition costs and value of business acquired	(105,402)	216,453
Reinsurance balances payable	565,221	420,902
Deferred tax asset - net	30,284	(51,571)
Derivatives	109,745	(45,306)
Other assets	(63,360)	(15,478)
Other liabilities	(59,258)	(286,737)
Other	57,618	34,500
Total adjustments	$(973,085)	$337,731
Net cash provided by (used in) operating activities	$20,504	$353,629
Cash flows provided by (used in) investing activities:		
Proceeds from sale of fixed maturities and short-term investments	$6,352,126	$3,043,659
Proceeds from redemption of fixed maturities and short-term investments	1,938,622	1,837,319
Proceeds from sale of equity securities	271,367	295,448
Purchases of fixed maturities and short-term investments	(8,042,196)	(3,801,109)
Purchases of equity securities	(239,535)	(239,680)
Proceeds from sale of affiliates	86,156	156,481
Purchases of affiliates	(33,298)	(196,487)
Purchase of Catlin Group Limited, net of cash acquired	(1,020,015)	—
Proceeds from sale of life reinsurance subsidiary	—	570,000
Proceeds from sale of ARX Holding Corp.	560,552	—

Change in restricted cash	(135,638)	—
Other, net	(87,516)	(96,222)
Net cash provided by (used in) investing activities	$(349,375)	$1,569,409
Cash flows provided by (used in) financing activities:		
Proceeds from issuance of ordinary shares and exercise of stock options	$4,827	$3,057
Buybacks of ordinary shares	(112,385)	(351,654)
Dividends paid on ordinary shares	(89,053)	(87,056)
Distributions to non-controlling interests	(53,456)	(38,502)
Contributions from non-controlling interests	4,658	21,494
Proceeds from the issuance of debt	980,600	—
Deposit liabilities	(49,388)	(213,869)
Net cash provided by (used in) financing activities	$685,803	$(666,530)
Effects of exchange rate changes on foreign currency cash	(37,905)	13,799
Increase (decrease) in cash and cash equivalents	$319,027	$1,270,307
Cash and cash equivalents - beginning of period	2,521,814	1,800,832
Cash and cash equivalents - end of period	$2,840,841	$3,071,139

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. On May 1, 2015, the Company completed its acquisition of Catlin Group Limited and its consolidated subsidiaries ("Catlin"). Catlin, through its wholly-owned subsidiaries, provided property, casualty and specialty insurance and reinsurance coverage on a worldwide basis. The Company's consolidated results of operations include those of Catlin from May 1, 2015. See Note 3(a), "Acquisition and Disposals - Catlin Acquisition" for additional information with respect to the acquisition of Catlin.

These unaudited consolidated financial statements include the accounts of the Company and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by GAAP for complete financial statements. In addition, the year-end balance sheet data was derived from audited financial statements but do not include all disclosures required by GAAP. In the opinion of management, these unaudited financial statements reflect all adjustments considered necessary for a fair statement of financial position and results of operations at the end of and for the periods presented. The results of operations for any interim period are not necessarily indicative of the results for a full year. All inter-company accounts and transactions have been eliminated. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure about contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates. For further information, see Item 8, Note 2(a), "Significant Accounting Policies – Basis of Preparation and Consolidation," to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

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) Restricted Cash

Restricted cash represents cash and cash equivalents that the Company is a) holding for the benefit of a third party and which is legally or contractually restricted as to withdrawal or usage for general corporate purposes; and b) not replaceable by another type of asset other than cash or cash equivalents, under the terms of the Company's contractual arrangements with such third parties. Restricted cash includes cash and cash equivalents held pursuant to the terms of the Company's contractual obligations of the transaction described in Note 3(c), "Acquisition and Disposals - Sale of Life Reinsurance Subsidiary."

(b) Recent Accounting Pronouncements

In February 2015, the Financial Accounting Standards Board ("FASB") issued an accounting standards update concerning consolidation of certain legal entities. Under this new guidance, all legal entities are required to evaluate whether they should consolidate certain legal entities. The guidance: (1) modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities; (2) eliminates the presumption that a general partner should consolidate a limited partnership; (3) affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) provides a scope exception from consolidation guidance for certain reporting entities. Upon adoption of the new guidance, differing requirements for performing a consolidation analysis under existing GAAP will be eliminated, and all reporting entities will now fall within the scope of the Accounting Standards Codification Subtopic 810-10, Consolidation-Overall, unless a specific exception applies. Under this Subtopic, there are only two primary models for determining whether consolidation is appropriate - a voting interest entity model, and a variable interest entity model. The guidance is effective for public business entities for annual periods beginning after December 15, 2015, and interim and annual periods thereafter, with early adoption permitted. The Company is currently evaluating the impact of this guidance.

In April 2015, the FASB issued an accounting standards update concerning the presentation of deferred debt issuance costs in an entity's balance sheet. Under this new guidance, which is part of the FASB's initiative to reduce complexity in accounting standards while maintaining or improving the usefulness of the information provided to users of financial statements, it is required that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In addition, the guidance also requires that the amortization of such costs be reported as interest expense. The guidance is effective for public business entities for annual periods beginning after December 15, 2015, and interim and annual periods thereafter, with early adoption permitted for financial statements that have not been previously issued. This guidance is not expected to have a material impact on the Company's financial condition, results of operations or cash flows.

In May 2015, the FASB issued an accounting standards update concerning investments for which management estimates fair value using net asset value per share (or its equivalent) as a practical expedient. Under the guidance, such investments will no longer be reported within the fair value hierarchy. Removing those investments from the fair value hierarchy not only eliminates the diversity in practice resulting from the way in which investments measured at net asset value per share (or its equivalent) with future redemption dates are classified, but also ensures that all investments categorized in the fair value hierarchy are classified using a consistent approach. Investments that calculate net asset value per share (or its equivalent), but for which the practical expedient is not applied, will continue to be included in the fair value hierarchy. A reporting entity should continue to disclose information on investments for which fair value is measured at net asset value (or its equivalent) as a practical expedient to help users understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value. The guidance is effective for public business entities for annual periods beginning after December 15, 2015 and interim and annual periods thereafter, with early adoption permitted. The Company is currently evaluating the impact of this guidance, but it is not expected to have a material impact on the Company's financial condition, results of operations or cash flows.

In May 2015, the FASB issued an accounting standards update concerning the annual disclosure regarding the liability for unpaid claims and claims adjustment expenses for insurance entities. The guidance requires: (1) incurred and paid claims development information by accident year, on a net basis after reinsurance, for the number of years for which claims incurred typically remain outstanding, including the most recent reporting period, which need not exceed 10 years; (2) a reconciliation of incurred and paid claims development information to the aggregate carrying amount of the liability for unpaid claims and claim adjustment expenses, with separate disclosure of reinsurance recoverable on unpaid claims for each period presented in the statement of financial position; (3) for each accident year for which incurred claims development information is presented, the total of incurred but not reported ("IBNR") liabilities plus expected development on reported claims included in the liability for unpaid claims and claims adjustment expenses, accompanied by a description of reserving methodologies; (4) for each accident year for which incurred claims development information is presented, quantitative information about claim frequency (unless it is impracticable to do so) accompanied by a qualitative description of methodologies used for determining claim frequency information; and (5) for all claims, the average annual percentage payout of incurred claims by age for the same number of accident years as the disclosure for IBNR. The guidance recommends that insurance entities aggregate or disaggregate those disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have significantly different characteristics. The amendments also require insurance entities to disclose information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements. Additionally, the amendments require insurance entities to disclose for annual and interim reporting periods a rollforward of the liability for unpaid claims and claims adjustment expenses. Additional disclosures about liabilities for unpaid claims and claim adjustment expenses reported at present value include: (1) for each period presented in the statement of financial position, the aggregate amount of discount for the time value of money deducted to derive the liability for unpaid claims and claim adjustment expenses; (2) for each period presented in the statement of income, the amount of interest accretion recognized; and (3) the line items in the statement of income in which interest accretion is classified. The guidance is effective for public business entities for annual periods beginning after December 15, 2015 and interim periods within annual periods after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the impact of this guidance, but it is not expected to have a material impact on the Company's financial condition, results of operations or cash flows

3. Acquisition and Disposals

(a) Catlin Acquisition

Overview

On May 1, 2015 (the "Acquisition Date"), the Company completed its acquisition (the "Catlin Acquisition") of the entire issued share capital of Catlin as contemplated by that certain Implementation Agreement, dated January 9, 2015 (the "Implementation Agreement"), by and among XL-Ireland, Green Holdings Limited, a wholly-owned subsidiary of the Company ("Green Holdings"), and Catlin.

Pursuant to the terms of the Implementation Agreement, the Catlin Acquisition was implemented by way of a scheme of arrangement (the "Scheme") under Section 99 of the Companies Act 1981 of Bermuda, as amended (the "Companies Act"), and sanctioned by the Supreme Court of Bermuda (the "Court"), immediately after which Catlin was merged with Green Holdings under Section 104H of the Companies Act, with Green Holdings as the surviving company, pursuant to the terms of that certain Merger Agreement, dated January 9, 2015 (the "Merger Agreement"), among XL-Ireland, Green Holdings and Catlin.

XL GROUP PLC
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the terms of the Implementation Agreement, XL-Ireland acquired each ordinary share of Catlin, par value $0.01 per share ("Catlin Shares"), for consideration per Catlin Share (the "Acquisition Consideration") equal to 388 pence in cash and 0.130 of an XL-Ireland ordinary share, par value $0.01 per share ("XL Shares"), subject to the mix and match facility set forth in the Implementation Agreement. The newly-issued XL Shares are listed on the New York Stock Exchange. The XL Shares issued in connection with the Catlin Acquisition were issued in reliance upon the exemption from registration under the U.S. Securities Act of 1933, as amended (the "Securities Act") provided by Section 3(a)(10) of the Securities Act.

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

The foregoing description of the Implementation Agreement and the Merger Agreement is qualified in its entirety by reference to the full text of the Implementation Agreement and Merger Agreement, copies of which were filed on Form 8-K on January 9, 2015.

In connection with the Catlin Acquisition, on January 9, 2015, the Company announced that it was relying on £1.6 billion of debt to be provided under a bridge facility entered into by XLIT Ltd., a wholly-owned subsidiary of the Company ("XL-Cayman"), and arranged by Morgan Stanley Senior Funding, Inc. and Goldman Sachs Bank USA (the "Bridge Facility") for the purposes of discharging the cash component of the Acquisition Consideration. The Company subsequently terminated the commitments under the Bridge Facility as of April 8, 2015, due to a sufficient amount in escrow to discharge the cash portion of the Acquisition Consideration. Costs related to maintaining the Bridge Facility are discussed in "Transaction-related Costs" below.

In addition, on January 9, 2015, the Company entered into deal contingent deliverable foreign exchange forwards ("FX Forwards") with Morgan Stanley Capital Services LLC and Goldman Sachs International. The purpose of the FX Forwards was to mitigate risk of foreign currency exposure related to the Catlin Acquisition. Following the closing of the Catlin Acquisition, the FX Forwards were settled.

Acquisition Consideration

The calculation of the consideration transferred to acquire Catlin Shares is as follows:

(In thousands, except per share data)	
Catlin Shares outstanding as of April 30, 2015 that received share consideration (including the dilutive effect of warrants)	384,118
Exchange ratio per the implementation agreement	0.130
XL Share issuance to Catlin shareholders	49,935
Closing price per XL share on April 30, 2015 (1)	$37.08
XL Share issuance consideration	$1,851,601
Catlin Shares outstanding as of April 30, 2015 that received cash consideration (including the dilutive effect of warrants)	384,118
Cash price component, per Catlin Share in GBP	£3.88
Cash consideration, in GBP	£1,490,377
Foreign exchange rate: GBP/USD on April 30, 2015	$1.5349
Cash consideration	$2,287,579
Total acquisition consideration	$4,139,180

(1) The closing market price of XL Shares on the Acquisition Date represents the fair value of XL shares issued as part of the Acquisition Consideration.

The Company financed the $2.29 billion cash portion of the Acquisition Consideration by issuing $1.0 billion of subordinated debt, the proceeds (net of debt issuance costs) of which were $980.6 million, and the remaining $1.31 billion by using cash and cash equivalents on hand. See Note 10, "Notes Payable and Debt and Financing Arrangements," for further information on the debt issuance.

Fair Value of Net Assets Acquired and Liabilities Assumed

The purchase price was allocated to the acquired assets and assumed liabilities of Catlin based on estimated fair values on the Acquisition Date. The Company recognized goodwill of $778.0 million which is primarily attributable to the synergies and economies of scale expected to result upon integration of Catlin into the Company's operations, including further diversification in geographic mix and product offerings and an increase in distribution strength. Due to the timing of the Catlin Acquisition, the Company has not completed the assignment of goodwill to reporting units for the reporting period ending June 30, 2015. The Company estimates that none of the goodwill that was recorded will be deductible for income tax purposes. The Company also

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recognized indefinite lived intangible assets of $673.0 million and other intangible assets of $315.0 million, which will be amortized over their estimated useful lives. See Note 8, "Goodwill and Other Intangible Assets," for further information.

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

The following table summarizes the fair values of the assets acquired and liabilities assumed at the Acquisition Date:

(U.S. dollars in thousands)	
ASSETS	
Fixed maturities, at fair value	$6,266,489
Short-term investments, at fair value	634,599
Equity investments, at fair value	236,230
Investment in affiliates	216,843
Other investments	386,828
Total investments	$7,740,989
Cash and cash equivalents (1)	1,267,565
Accrued investment income	35,063
Premiums receivable	2,545,188
Unpaid losses and loss expenses recoverable	1,493,267
Reinsurance balances receivable	299,579
Ceded unearned premiums	1,143,852
Deferred acquisition costs and value of business acquired	679,259
Intangible assets	988,000
Receivable from investments sold	9,633
Other assets	314,168
Total assets	$16,516,563
LIABILITIES	
Unpaid losses and loss expenses	$6,933,144
Unearned premiums	3,742,234
Reinsurance balances payable	1,441,749
Notes payable and debt	82,066
Payable for investments purchased	34,149
Deferred tax liability	94,071
Other liabilities	265,728
Total liabilities	$12,593,141
Net assets acquired before non-controlling interest	$3,923,422
Non-controlling interest in equity of consolidated subsidiaries	562,285
Net assets acquired	$3,361,137
Acquisition Consideration	$4,139,180
Goodwill	$778,043

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(1) Includes Restricted Cash

An explanation of the significant adjustments to the components of fair value are as follows:

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

- Intangible assets - Establish the estimated fair value of intangible assets related to Catlin. See Note 8, "Goodwill and Other Intangible Assets" for further information.
- Other assets - Establish the estimated fair value of Catlin's internally developed software.
- Unpaid losses and loss adjustment expenses - Unpaid losses and loss adjustment expenses acquired include an increase to adjust the carrying value of Catlin's historical unpaid losses and loss adjustment expenses, net of related reinsurance recoverable, to fair value as of the Acquisition Date. The estimated fair value consists of the present value of the expected net loss and loss adjustment expense payments plus a risk premium. This adjustment, plus the unamortized fair value adjustment included in Catlin's historical unpaid losses and loss adjustment expenses, will be amortized to losses and loss adjustment expenses over a weighted average period of approximately 20 years, based on the estimated payout pattern of net reserves as of the Acquisition Date.
- Net deferred tax liabilities - The adjustment to deferred tax liabilities is related to the deferred tax impact of the adjustments to fair value as noted above. This net increase of deferred tax liabilities is explained further in "Income Taxes" below.
- Non-controlling interest - The fair value was determined based on the last trade price of preferred shares issued by Catlin Insurance Company Limited ("Catlin-Bermuda"). See Note 9, "Share Capital" for further information.

Income Taxes

As part of the allocation of the purchase price, the Company recorded a total net deferred tax liability of $94.1 million. This is the combination of an excess of gross tax liabilities over gross tax assets by $22.1 million, and a valuation allowance of $72.0 million across several jurisdictions. The $94.1 million total net deferred tax liability is comprised of a deferred tax liability of $133.8 million related to the estimated fair value of the intangible assets recorded at the Acquisition Date, partially offset by deferred tax assets, net of associated valuation allowances, of $17.4 million related to loss carry forwards, $13.0 million related to fixed assets, and $8.8 million related to the fair value measurements of unpaid losses and loss adjustment expenses, and deferred acquisition costs and the value of business acquired. The remaining $0.5 million of deferred tax assets relates primarily to differences between financial reporting and tax bases of the other acquired assets and liabilities as of the Acquisition Date.

As a result of the Catlin Acquisition, the expected full year effective tax rate has been determined using a single rate approach taking into account the full year expected results, including the post-acquisition results of the acquired businesses.

In order to align all U.S. regulated entities under X.L. America, Inc., an indirect, wholly-owned subsidiary of XL-Ireland ("XLA"), the Company is seeking to have XLA purchase 100% of the stock of Catlin Inc. from Catlin North America Holdings, Ltd, a U.K. holding company. Subject to receipt of the necessary regulatory approvals, the Company intends to complete this restructuring by no later than October 31, 2015. If the restructuring occurs by the specified date, there would likely be a release of the valuation allowance currently held against the deferred tax asset maintained by Catlin Inc. which would result in a permanent tax benefit through operations.

Transaction-related Costs

The Company incurred certain acquisition and financing costs associated with the transaction. The Company has recorded $61.8 million of these costs for the six months ended June 30, 2015, of which $47.3 million has been included in Operating Expense and $14.5 million has been included in Interest Expense.

Transaction costs included in Operating Expense primarily consist of due diligence, legal, advisory and investment banking costs. Transaction costs included in Interest Expense related to the maintenance of the Bridge Facility.

Pursuant to the terms of the Implementation Agreement, Catlin was required to pay its own costs and expenses in relation to the negotiation, preparation, execution and implementation of the Catlin Acquisition. Costs incurred by Catlin were recorded and paid by Catlin prior to the Acquisition Date and are not included within the Company's consolidated statements of income and comprehensive income.

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As a part of the ongoing integration of Catlin's operations, the Company incurs costs associated with restructuring the systems, processes and workforce. These costs include such items as severance, retention, facilities and consulting and other costs. The Company separately identifies such costs and includes these expenses within Corporate and Other:

(U.S. dollars in thousands)	Severance costs	Retention costs	Facilities-related costs	Consulting and other
Costs incurred in 2015	$12,274	$365	$ 1,530	$13,676
2015 payments	1,639	—	462	4,573
Liabilities at June 30, 2015	$10,635	$365	$ 1,068	$9,103

Financial Results

The following table summarizes the results of the acquired Catlin operations since the Acquisition Date that have been included within the Company's consolidated statements of income and comprehensive income.

(U.S. dollars in thousands)	May 1, 2015 to June 30, 2015
Total revenues	$709,800
Net income (loss) attributable to ordinary shareholders	$50,017

Supplemental Pro Forma Information

The results of the acquired Catlin operations have been included in the Company's unaudited consolidated financial statements from the Acquisition Date to June 30, 2015. The following table presents unaudited pro forma consolidated information for the six months ended June 30, 2015 and 2014 and assumes the Catlin Acquisition occurred on January 1, 2014. The pro forma financial information is presented for informational purposes only and does not necessarily reflect the results that would have occurred had the acquisition taken place on January 1, 2014, nor is it necessarily indicative of future results. Significant adjustments used to determine pro forma results include amortization of intangible assets and amortization of fair value adjustments discussed above, and the corresponding income tax effects. Non-recurring transaction related costs noted above have been included in the unaudited pro forma results for the six months ended June 30, 2014.

	Unaudited Pro Forma Six Months Ended June 30,	
(In thousands, except per share data)	2015	2014
Total revenues	$5,427,900	$5,736,519
Net income attributable to ordinary shareholders	960,951	107,279
Earnings (loss) per ordinary share and ordinary share equivalent – basic	3.14	0.33
Earnings (loss) per ordinary share and ordinary share equivalent – diluted	3.09	0.33

(b) Sale of Strategic Operating Affiliate

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

XL Re received $560.6 million in proceeds from the transaction, which was based upon the consolidated tangible net book value of ARX and its subsidiaries as of December 31, 2014, and certain other factors. Thus, the Company recorded a gain of $340.4 million as a result of this transaction that is reflected in the unaudited consolidated statement of income for the three and six months ended June 30, 2015.

(c) Sale of Life Reinsurance Subsidiary

On May 1, 2014, a wholly owned subsidiary of the Company, 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 XLIB's wholly-owned subsidiary, XL Life Reinsurance (SAC) Ltd ("XLLR"), to GreyCastle for $570 million in cash (subsequent to the transaction, XLLR changed its name to GreyCastle Life Reinsurance (SAC)

Ltd ("GCLR")). This transaction closed on May 30, 2014. As a result of the transaction, the Company ceded the majority of its life reinsurance business to GCLR via 100% quota share reinsurance (the "Life Retro Arrangements"). This transaction covered a substantial portion of our

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life reinsurance reserves. The Company ceased writing new life reinsurance contracts in 2009 and since that time has been managing the run-off of its life reinsurance operations ("Run-Off Life Operations"). The designated investments that support the Life Retro Arrangements on a funds withheld basis ("Life Funds Withheld Assets") are managed pursuant to agreed investment guidelines that meet the contractual commitments of the Company's ceding subsidiaries and applicable laws and regulations. All of the investment results associated with the Life Funds Withheld Assets ultimately accrue to GCLR.

Because the Company no longer shares in the risks and rewards of the underlying performance of the supporting invested assets, disclosures within the financial statement notes included herein separate the Life Funds Withheld Assets from the rest of the Company's investments.

As of May 30, 2014, gross future policy benefit reserves relating to the Life operations were approximately $5.2 billion. Subsequent to the completion of the GreyCastle transaction, the Company retained approximately $0.4 billion of these reserves, and recorded a reinsurance recoverable from GCLR of $4.8 billion. Under the terms of the transaction, the Company continues to own, on a funds withheld basis, 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 GCLR 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 that is reflected in the unaudited consolidated statements of income for the three and six months ended June 30, 2014.

As of June 30, 2015, gross future policy benefit reserves relating to the Run-Off Life Operations were approximately $4.5 billion, of which the Company retained approximately $0.4 billion, after consideration of its future policy benefit reserves recoverable from GCLR of approximately $4.1 billion. The net funds withheld liability included within "Funds withheld on life retrocession arrangements, net of future policy benefit reserves recoverable" was $0.9 billion. The Company continued to own $5.0 billion of assets supporting the Life Retro Arrangements.

The impact of the Life Retro Arrangements on the Company's results was as follows:

Impact of Life Retro Arrangements	Three months ended June 30,		Six Months Ended June 30,	
(U.S. dollars in thousands)	2015	2014	2015	2014
Underwriting profit (loss) (1)	$—	$—	$603	$—
Net investment income - Life Funds Withheld Assets	46,864	19,165	97,283	19,165
Net realized gains (losses) on investments sold - Life Funds Withheld Assets	68,037	624	120,775	624
Net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets	(19,543)	—	(18,783)	—
OTTI on investments - Life Funds Withheld Assets	(2,878)	(8,771)	(8,087)	(8,771)
Exchange gains (losses)	(18,370)	—	(14,686)	—
Other income and expenses	3,773	(19)	2,475	(19)
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	239,174	(17,546)	9,807	(17,546)
Net income (loss)	$317,057	$(6,547)	$189,387	$(6,547)
Change in net unrealized gains (losses) on investments - Life Funds Withheld Assets, net of tax	(321,046)	12,297	(283,931)	12,297
Change in adjustments related to future policy benefit reserves, net of tax	26,328	—	86,684	—
Change in cumulative translation adjustment - Life Funds Withheld Assets, net of tax	(22,339)	(5,750)	8,463	(5,750)
	$(317,057)	$6,547	$(188,784)	$6,547

Total changes to other comprehensive income as a result of Life Retro Arrangements				
Comprehensive income (loss)	$—	$—	$603	$—

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(1) The underwriting profit of $0.6 million relates to a premium adjustment during the six months ended June 30, 2015 relating to the Life Retro Arrangements transaction. Excluding this transaction, the impact to comprehensive income relating to the Life Retro Arrangements was nil for the three and six months ended June 30, 2015.

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 minimal 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 3(c), "Acquisition and Disposals - Sale of Life Reinsurance Subsidiary," under the Life Retro Arrangements, all of the investment results associated with the Life Funds Withheld Assets ultimately accrue to GCLR. Because the Company no longer shares in the risks and rewards of the underlying performance of the Life Funds Withheld Assets, the financial statements and accompanying notes included herein separately report the Life Funds Withheld Assets from the rest of the Company's investments.

For further information about the Company's fair value measurements, 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, 2014.

(a) Fair Value Summary

The following tables set forth the Company’s assets and liabilities that were accounted for at fair value as of June 30, 2015 and December 31, 2014 by level within the fair value hierarchy:

June 30, 2015 (U.S. dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Collateral and Counterparty Netting	Balance at June 30, 2015

Assets					
Fixed maturities - Available for Sale ("AFS") - Excluding Life Funds Withheld Assets					
U.S. Government and Government-Related/Supported	$—	$3,827,106	$—	$—	$3,827,106
Corporate - Financials	—	3,225,513	10,000	—	3,235,513
Corporate - Non Financials (1)	—	6,946,510	5,554	—	6,952,064
Residential mortgage-backed securities – Agency ("RMBS - Agency")	—	3,955,106	3,038	—	3,958,144
Residential mortgage-backed securities – Non-Agency ("RMBS - Non-Agency")	—	372,271	—	—	372,271
Commercial mortgage-backed securities ("CMBS")	—	936,058	—	—	936,058
Collateralized debt obligations ("CDO")	—	3,854	484,171	—	488,025
Other asset-backed securities (1)	—	2,307,642	42,745	—	2,350,387

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U.S. States and political subdivisions of the States	—	2,391,273	—	—	2,391,273
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	—	5,260,062	—	—	5,260,062
Total fixed maturities - AFS - Excluding Funds Withheld Assets, at fair value	$—	$29,225,395	$545,508	$—	$29,770,903
Equity securities, at fair value	659,338	414,132	—	—	1,073,470
Short-term investments, at fair value (1)(2)	—	807,486	—	—	807,486
Total investments AFS - Excluding Funds Withheld Assets	$659,338	$30,447,013	$545,508	$—	$31,651,859
Fixed maturities - Life Funds Withheld Assets					
U.S. Government and Government-Related/Supported	$—	$13,678	$—	$—	$13,678
Corporate - Financials	—	722,922	—	—	722,922
Corporate - Non Financials	—	1,665,678	—	—	1,665,678
RMBS – Agency	—	837	—	—	837
RMBS – Non-Agency	—	29,591	—	—	29,591
CMBS	—	145,617	—	—	145,617
Other asset-backed securities	—	187,537	—	—	187,537
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	—	1,231,228	—	—	1,231,228
Total fixed maturities - AFS - Life Funds Withheld Assets, at fair value	$—	$3,997,088	$—	$—	$3,997,088
Total investments - AFS, at fair value	$659,338	$34,444,101	$545,508	$—	$35,648,947
Fixed maturities - trading securities ("Trading")					
U.S. Government and Government-Related/Supported	$—	$3,596	$—	$—	$3,596
Corporate - Financials	—	187,169	—	—	187,169
Corporate - Non Financials	—	332,654	—	—	332,654
CMBS	—	261	—	—	261
Other asset-backed securities	—	14,823	—	—	14,823
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	—	252,981	—	—	252,981
Total fixed maturities - Trading, at fair value	$—	$791,484	$—	$—	$791,484
Cash equivalents (3)	705,092	270,784	—	—	975,876
Cash equivalents - Life Funds Withheld Assets (3)	143	91,367	—	—	91,510
Other investments (4)	—	1,139,393	255,672	—	1,395,065
Other assets (5)	—	215,083	13,392	(3,239)	225,236
Total assets accounted for at fair value	$1,364,573	$36,952,212	$814,572	$(3,239)	$39,128,118
Liabilities					
Funds withheld on life retrocession arrangements (net of future policy benefit	$—	$381,337	$—	$—	$381,337

reserves recoverable) (6)					
Financial instruments sold, but not yet purchased (7)	1,581	1,233	—	—	2,814
Other liabilities (5)	—	59,739	23,145	(3,239)	79,645
Total liabilities accounted for at fair value	$1,581	$442,309	$23,145	$(3,239)	$463,796

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December 31, 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 December 31, 2014
Assets					
Fixed maturities - AFS - Excluding Life Funds Withheld Assets					
U.S. Government and Government-Related/Supported	$—	$2,171,953	$—	$—	$2,171,953
Corporate - Financials	—	2,761,916	—	—	$2,761,916
Corporate - Non Financials (1)	—	6,010,563	5,894	—	$6,016,457
Residential mortgage-backed securities – RMBS - Agency	—	3,726,666	1,910	—	$3,728,576
Residential mortgage-backed securities – RMBS - Non-Agency	—	427,351	—	—	$427,351
CMBS	—	1,052,544	—	—	$1,052,544
CDO	—	4,076	687,958	—	$692,034
Other asset-backed securities (1)	—	1,060,005	5,288	—	$1,065,293
U.S. States and political subdivisions of the States	—	2,021,272	—	—	$2,021,272
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	—	4,240,073	—	—	$4,240,073
Total fixed maturities - AFS - Excluding Funds Withheld Assets, at fair value	$—	$23,476,419	$701,050	$—	$24,177,469
Equity securities, at fair value	502,284	366,008	—	—	868,292
Short-term investments, at fair value (1)(2)	—	256,727	—	—	256,727
Total investments AFS - Excluding Funds Withheld Assets	$502,284	$24,099,154	$701,050	$—	$25,302,488
Fixed maturities - Life Funds Withheld Assets					
U.S. Government and Government-Related/Supported	$—	$18,724	$—	$—	$18,724
Corporate - Financials	—	801,019	—	—	$801,019
Corporate - Non Financials	—	2,016,961	—	—	$2,016,961
RMBS – Agency	—	3,782	—	—	$3,782
RMBS – Non-Agency	—	85,335	—	—	$85,335
CMBS	—	193,167	—	—	$193,167
Other asset-backed securities	—	273,541	—	—	$273,541
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	—	1,789,036	—	—	$1,789,036
Total fixed maturities - AFS - Life Funds Withheld Assets, at fair value	$—	$5,181,565	$—	$—	$5,181,565
Total investments - AFS, at fair value	$502,284	$29,280,719	$701,050	$—	$30,484,053

Fixed maturities - Trading					
Corporate - Non Financials	—	1,171	—	—	$1,171
Total fixed maturities - Trading, at fair value	$—	$1,171	$—	$—	$1,171
Cash equivalents (3)	1,103,877	397,955	—	—	$1,501,832
Cash equivalents - Life Funds Withheld Assets (3)	460	132,738	—	—	$133,198
Other investments (4)	—	708,974	185,083	—	$894,057
Other assets (5)	—	122,996	13,663	(696)	$135,963
Total assets accounted for at fair value	$1,606,621	$30,644,553	$899,796	$(696)	$33,150,274
Liabilities					
Funds withheld on life retrocession arrangements (net of future policy benefit reserves recoverable) (6)	$—	$450,831	$—	$—	$450,831
Financial instruments sold, but not yet purchased (7)	4,737	25,669	—	—	$30,406
Other liabilities (5)	—	7,757	23,427	(696)	$30,488
Total liabilities accounted for at fair value	$4,737	$484,257	$23,427	$(696)	$511,725

(1) Included 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 $75.3 million and $79.9 million and an amortized cost of $64.5 million and $68.4 million as of June 30, 2015 and December 31, 2014, respectively. These notes allow the investor to participate in cash flows of the underlying bonds including certain residual values, which could serve to either decrease or increase the ultimate values of these notes.

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

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(3) 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.

(4) The Other investments balance excludes certain structured transactions including certain investments in project finance transactions, and 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 $348.2 million as of June 30, 2015 and $354.4 million at December 31, 2014, are carried at amortized cost. For further information, see Item 8, Note 8, "Other Investments," to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2014.

(5) 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.

(6) Funds withheld on life retrocession arrangements (net of future policy benefit reserves recoverable) include balances related to the life retrocession embedded derivative, under which all investment results associated with the Life Funds Withheld Assets related to the Life Retro Arrangements described in Note 3(c), "Acquisition and Disposals - Sale of Life Reinsurance Subsidiary," accrue to the benefit of GCLR.

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

(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, 2015 and 2014 for all financial assets and liabilities measured at fair value using significant unobservable inputs (Level 3) at June 30, 2015 and 2014, 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, 2015 and 2014, respectively. Gains and losses for assets and liabilities classified within Level 3 in the table below may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). Further, it should be noted that the following tables do not take into consideration the effect of offsetting Level 1 and 2 financial instruments entered into by the Company that are either economically hedged by certain exposures to the Level 3 positions or that hedge the exposures in Level 3 positions.
In general, Level 3 assets include securities for which values were obtained from brokers where either significant inputs were utilized in determining the values that were difficult to corroborate with observable market data, or sufficient information regarding the specific inputs utilized by the broker was not available to support a Level 2 classification. Transfers into or out of Level 3 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 or other valuations sourced from brokers that are considered Level 3.
There were no significant transfers between Level 1 and Level 2 during each of the three and six months ended June 30, 2015 and 2014.

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

	Level 3 Assets and Liabilities -Three Months Ended June 30, 2015			
(U.S. dollars in thousands)	CMBS	CDO	Other asset-backed securities	Non-US Sovereign Government, Provincial, Supranational and Government Related/Supported
Balance, beginning of period	$—	$496,923	$2,244	$—
Realized gains (losses)	—	224	92	—
Movement in unrealized gains (losses)	—	2,445	8	—
Purchases and issuances (1)	—	11,941	40,628	—
Sales	—	—		—
Settlements	—	(27,362)	(227)	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Fixed maturities to short-term investments classification change	—	—	—	—
Balance, end of period	$—	$484,171	$42,745	$—
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$2,057	$100	$—

	Level 3 Assets and Liabilities -Three Months Ended June 30, 2015		
(U.S. dollars in thousands)	Short-term investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	$—	$190,097	$(9,606)
Realized gains (losses)	—	1,291	—

Movement in unrealized gains (losses)	—	(139)	(147)
Purchases and issuances (1)	—	66,510	—
Sales	—		
Settlements	—	(2,087)	—
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Fixed maturities to short-term investments classification change	—	—	—
Balance, end of period	$—	$255,672	$(9,753)
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$1,152	$(147)

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

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(U.S. dollars in thousands)	Level 3 Assets and Liabilities -Three Months Ended June 30, 2014 Corporate - Financials	Corporate - Non-Financials	RMBS - Agency	RMBS - Non Agency
Balance, beginning of period	$—	$4,382	$8,928	$11
Realized gains (losses)	—	35	6	—
Movement in unrealized gains (losses)	—	(93)	(13)	—
Purchases and issuances (1)	—	8	—	—
Sales	—	—	—	—
Settlements	—	(399)	(2,025)	—
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
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$(58)	$(6)	$—

(U.S. dollars in thousands)	Level 3 Assets and Liabilities -Three Months Ended June 30, 2014 CMBS	CDO	Other asset-backed securities	Non-US Sovereign Government, Provincial, Supranational and Government Related/Supported
Balance, beginning of period	$5,926	$718,827	$10,673	$—
Realized gains (losses)	2	875	(5)	—
Movement in unrealized gains (losses)	(1)	8,331	144	—
Purchases and issuances (1)	1,376	75,201	3,000	—
Sales	—	(30,892)	—	—
Settlements	(5,358)	(39,518)	(2,108)	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Fixed maturities to short-term investments classification change	—	—	—	—
Balance, end of period	$1,945	$732,824	$11,704	$—
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$8,247	$140	$—

(U.S. dollars in thousands)	Level 3 Assets and Liabilities -Three Months Ended June 30, 2014	Short-term investments	Other investments	Derivative Contracts - Net
Balance, beginning of period		$—	$116,418	$(32,496)
Realized gains (losses)		—	5,127	—

Movement in unrealized gains (losses)	—	(1,779)	13,586
Purchases and issuances (1)	—	9,997	—
Sales	—	—	—
Settlements	—	(5,288)	—
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Fixed maturities to short-term investments classification change	—	—	—
Balance, end of period	$—	$124,475	$(18,910)
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$3,348	$13,586

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

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

	Level 3 Assets and Liabilities - Six Months Ended June 30, 2015			
(U.S. dollars in thousands)	CMBS	CDO	Other asset-backed securities	Non-US Sovereign Government, Provincial, Supranational and Government Related/Supported
Balance, beginning of period	$—	$687,958	$5,288	$—
Realized gains (losses)	—	260	91	—
Movement in unrealized gains (losses)	—	8,000	10	—
Purchases and issuances (1)	—	11,941	40,628	—
Sales	—	(155,085)	—	—
Settlements	—	(68,903)	(3,272)	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Fixed maturities to short-term investments classification change	—	—	—	—
Balance, end of period	$—	$484,171	$42,745	$—
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$4,725	$100	$—

	Level 3 Assets and Liabilities - Six Months Ended June 30, 2015		
(U.S. dollars in thousands)	Short-term investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	$—	$185,083	$(9,764)
Realized gains (losses)	—	2,593	—

Movement in unrealized gains (losses)	—	(1,966)	11
Purchases and issuances (1)	—	73,303	—
Sales	—	—	—
Settlements	—	(3,341)	—
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Fixed maturities to short-term investments classification change	—	—	—
Balance, end of period	$—	$255,672	$(9,753)
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$628	$11

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

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	Level 3 Assets and Liabilities - Six Months Ended June 30, 2014			
(U.S. dollars in thousands)	Corporate - Financials	Corporate - Non-Financials	RMBS - Agency	RMBS - Non Agency
Balance, beginning of period	$—	$31,573	$10,473	$9
Realized gains (losses)	—	155	6	—
Movement in unrealized gains (losses)	—	(96)	(13)	2
Purchases and issuances (1)	—	1,443	—	—
Sales	—	—	—	—
Settlements	—	(5,513)	(2,598)	—
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
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$90	$(6)	$—

	Level 3 Assets and Liabilities - Six Months Ended June 30, 2014			
(U.S. dollars in thousands)	CMBS	CDO	Other asset-backed securities	Non-US Sovereign Government, Provincial, Supranational and Government Related/Supported
Balance, beginning of period	$12,533	$710,253	$11,877	$—
Realized gains (losses)	3	2,456	(20)	—
Movement in unrealized gains (losses)	(3)	12,013	206	—
Purchases and issuances (1)	1,376	103,015	3,000	—
Sales	—	(40,824)	—	—
Settlements	(11,964)	(54,089)	(3,359)	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Fixed maturities to short-term investments classification change	—	—	—	—
Balance, end of period	$1,945	$732,824	$11,704	$—
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$13,216	$186	$—

	Level 3 Assets and Liabilities - Six Months Ended June 30, 2014		
(U.S. dollars in thousands)	Short-term investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	$2,015	$113,472	$(29,110)
Realized gains (losses)	—	8,691	—

Movement in unrealized gains (losses)	(15)	(282)	10,200
Purchases and issuances (1)	—	21,086	—
Sales	—	—	—
Settlements	(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	$—	$124,475	$(18,910)
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$8,409	$10,200

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

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(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.
(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 8, "Other Investments," to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.
(e) Derivative instruments
Derivative instruments recorded within Other liabilities and classified within Level 3 include credit derivatives 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 interest income and realized and unrealized gains and losses on Life Funds Withheld Assets and certain related expenses related to the Life Funds Withheld Assets. The fair value of the embedded derivative is included in "Funds withheld on 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 as of June 30, 2015 and December 31, 2014. All of these fair value estimates are considered Level 2 fair value measurements. The

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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, 2015 Carrying Value	Fair Value	December 31, 2014 Carrying Value	Fair Value
Financial Assets - Other investments, structured transactions	$348,192	$365,335	$354,382	$371,625
Deposit liabilities	$1,212,206	$1,528,520	$1,245,367	$1,543,761
Notes payable and debt	2,726,455	2,911,949	1,662,580	1,897,854
Financial Liabilities	$3,938,661	$4,440,469	$2,907,947	$3,441,615

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

Deposit liabilities include obligations under structured insurance and reinsurance transactions. For purposes of fair value disclosures, the Company determined the estimated fair value of the deposit liabilities by assuming a discount rate equal to the appropriate U.S. Treasury rate plus 48.6 basis points and 29.5 basis points as of June 30, 2015 and December 31, 2014, respectively. The discount rate incorporates the Company’s own credit risk into the determination of estimated fair value.

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

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

5. Segment Information

The Company is organized into two operating segments: Insurance and Reinsurance. Subsequent to the transaction described in Note 3(a), "Acquisition and Disposals - Catlin Acquisition," the underwriting results of the acquired businesses from the Acquisition Date through June 30, 2015 are included in the Company's Insurance or Reinsurance segment, as appropriate.

The Company’s general investment and financing operations are reflected in "Corporate and Other". Subsequent to the transaction described in Note 3(c), "Acquisition and Disposals - Sale of Life Reinsurance Subsidiary," GCLR reinsures the majority of the Company's life reinsurance business through the Life Retro Arrangements. The results of the Run-Off Life Operations not subject to the Life Retro Arrangements are also reported within Corporate and Other.

The Company evaluates the performance of both the Insurance and Reinsurance segments based on underwriting profit. Other items of 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 or in Corporate and Other. The following tables summarize the segment results for the three and six months ended June 30, 2015 and 2014:

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Three Months Ended June 30, 2015 (U.S. dollars in thousands, except ratios)	Insurance	Reinsurance	Total P&C	Corporate and Other (1)	Total
Gross premiums written	$2,219,444	$782,248	$3,001,692	$79,443	$3,081,135
Net premiums written	1,401,772	698,301	2,100,073	18,258	2,118,331
Net premiums earned	1,412,906	650,889	2,063,795	18,258	2,082,053
Net losses and loss expenses (2)	896,370	254,825	1,151,195	22,081	1,173,276
Acquisition costs (2)	181,716	158,217	339,933	1,684	341,617
Operating expenses (3)	292,161	71,727	363,888	(59)	363,829
Underwriting profit (loss)	$42,659	$166,120	$208,779	$(5,448)	$203,331
Net investment income - excluding Life Funds Withheld Assets (4)			149,461	10,831	160,292
Net investment income - Life Funds Withheld Assets				46,864	46,864
Net results from structured products (5)	3,401	1,856	5,257	—	5,257
Net fee income and other (6)	(2,033)	623	(1,410)	46	(1,364)
Net realized gains (losses) on investments - excluding Life Funds Withheld Assets			4,223	128	4,351
Net realized gains (losses) on investments and net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets			—	45,616	45,616
Net realized and unrealized gains (losses) on derivative instruments			—	48,509	48,509
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets			—	239,174	239,174
Net income (loss) from investment fund affiliates and operating affiliates (7)			—	40,839	40,839
Gain on sale of operating affiliate			—	340,407	340,407
Exchange (gains) losses			—	10,374	10,374
Corporate operating expenses			—	130,987	130,987
Contribution from P&C and Corporate and Other			366,310	625,605	991,915
Interest expense (8)				39,038	39,038
Non-controlling interests				4,879	4,879
Income tax expense				32,959	32,959
Net income (loss) attributable to ordinary shareholders					$915,039
Ratios – P&C operations: (9)					
Loss and loss expense ratio	63.4 %	39.2 %	55.8 %		
Underwriting expense ratio	33.6 %	35.3 %	34.1 %		
Combined ratio	97.0 %	74.5 %	89.9 %		

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(1) Corporate and Other includes other items of our revenue and expenditures that are not evaluated at the segment level for reporting purposes, as well as the Company's Run-Off Life Operations.
(2) The Company has reflected the amortization of certain fair value adjustments recorded in conjunction with the Catlin Acquisition within the respective segments.
(3) Operating expenses of the segments exclude Corporate operating expenses, shown separately.
(4) Net investment income - excluding Life Funds Withheld Assets does not include net investment income related to the net results from structured products.
(5) The net results from P&C structured products include net investment income and interest expense of $16.0 million and $10.6 million, respectively.
(6) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business.
(7) The Company generally 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.
(8) Interest expense excludes interest expense related to deposit liabilities recorded in the Insurance and Reinsurance segments.
(9) Ratios are based on net premiums earned from P&C operations.

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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 (2)	627,627	200,253	827,880	85,299	913,179
Acquisition costs (2)	99,863	80,874	180,737	3,882	184,619
Operating expenses (3)	213,930	47,582	261,512	2,209	263,721
Underwriting profit (loss)	$62,570	$105,377	$167,947	$(32,872)	$135,075
Net investment income - excluding Life Funds Withheld Assets (4)			144,555	52,118	196,673
Net investment income - Life Funds Withheld Assets				19,165	19,165
Net results from structured products (5)	31,645	3,240	34,885	—	34,885
Net fee income and other (6)	(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 and net unrealized gains (losses) on investments, Trading - 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 and derivative instruments - Life Funds Withheld Assets			—	(17,546)	(17,546)
Net income (loss) from investment fund affiliates and operating affiliates (7)			—	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			422,989	(671,937)	(248,948)
Interest expense (8)				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					$(279,260)
Ratios – P&C operations: (9)					
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 other items of our revenue and expenditures that are not evaluated at the segment level for reporting purposes, as well as the Company's Run-Off Life Operations.
(2) The Company has reflected the amortization of certain fair value adjustments recorded in conjunction with the Catlin Acquisition within the respective segments.
(3) Operating expenses of the segments exclude Corporate operating expenses, shown separately.
(4) Net investment income - excluding Life Funds Withheld Assets does not include net investment income related to the net results from structured products.
(5) The net results from P&C structured products include net investment income and interest credit of $16.9 million and $18.2 million, respectively.
(6) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business.
(7) The Company generally 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.
(8) Interest expense excludes interest expense related to deposit liabilities recorded in the Insurance and Reinsurance segments.
(9) Ratios are based on net premiums earned from P&C operations.

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

(1) Corporate and Other includes other items of our revenue and expenditures that are not evaluated at the segment level for reporting purposes, as well as the Company's Run-Off Life Operations.
(2) The Company has reflected the amortization of certain fair value adjustments recorded in conjunction with the Catlin Acquisition within the respective segments.
(3) Operating expenses of the segments exclude Corporate operating expenses, shown separately.
(4) Net investment income - excluding Life Funds Withheld Assets does not include net investment income related to the net results from structured products.
(5) The net results from P&C structured products include net investment income and interest expense of $31.1 million and $20.6 million, respectively.
(6) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business.
(7) The Company generally 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.
(8) Interest expense excludes interest expense related to deposit liabilities recorded in the Insurance and Reinsurance segments.
(9) Ratios are based on net premiums earned from P&C operations.

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Six 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	$3,189,331	$1,350,837	$4,540,168	$171,007	$4,711,175
Net premiums written	2,124,247	1,228,619	3,352,866	134,829	3,487,695
Net premiums earned	1,996,430	854,174	2,850,604	134,829	2,985,433
Net losses and loss expenses (2)	1,266,820	392,565	1,659,385	198,886	1,858,271
Acquisition costs (2)	204,863	168,109	372,972	11,061	384,033
Operating expenses (3)	416,983	88,443	505,426	5,397	510,823
Underwriting profit (loss)	$107,764	$205,057	$312,821	$(80,515)	$232,306
Net investment income - excluding Life Funds Withheld Assets (4)			288,082	123,010	411,092
Net investment income - Life Funds Withheld Assets				19,165	19,165
Net results from structured products (5)	36,535	6,303	42,838	—	42,838
Net fee income and other (6)	(4,779)	1,337	(3,442)	90	(3,352)
Loss on sale of life reinsurance subsidiary			—	666,423	666,423
Net realized gains (losses) on investments - excluding Life Funds Withheld Assets			96,171	3,902	100,073
Net realized gains (losses) on investments and net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets			—	(8,147)	(8,147)
Net realized and unrealized gains (losses) on derivative instruments			—	13,409	13,409
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets			—	(17,546)	(17,546)
Net income (loss) from investment fund affiliates and operating affiliates (7)			—	125,009	125,009
Exchange (gains) losses			—	31,582	31,582
Corporate operating expenses			—	107,833	107,833
Contribution from P&C and Corporate and Other			736,470	(627,461)	109,009
Interest expense (8)				64,444	64,444
Non-controlling interests				39,441	39,441
Income tax expense				28,667	28,667
Net income (loss) attributable to ordinary shareholders					$(23,543)
Ratios – P&C operations: (9)					
Loss and loss expense ratio	63.5%	46.0%	58.2%		
Underwriting expense ratio	31.1%	30.0%	30.8%		

Combined ratio	94.6	%	76.0	%	89.0	%

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

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

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

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

(5) The net results from P&C structured products include net investment income and interest credit of $35.7 million and $7.4 million, respectively.

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

(7) The Company generally 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.

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

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

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The following tables summarize the Company's net premiums earned by line of business for the three and six months ended June 30, 2015 and 2014:

Three Months Ended June 30, 2015 (U.S. dollars in thousands)	Insurance	Reinsurance	Corporate and Other	Total
P&C Operations:				
Professional	$286,348	$43,225	$—	$329,573
Casualty	420,472	125,787	—	546,259
Property catastrophe	—	163,453	—	163,453
Property	215,128	231,897	—	447,025
Marine, energy, aviation and satellite	(16)	32,549	—	32,533
Specialty	411,438	—	—	411,438
Other (1)	79,536	53,978	—	133,514
Total P&C Operations	$1,412,906	$650,889	$—	$2,063,795
Corporate and Other:				
Run-off Life operations - Annuity	$—	$—	$1	$1
Run-off Life operations - Other Life	—	—	18,257	18,257
Total Corporate and Other	$—	$—	$18,258	$18,258
Total	$1,412,906	$650,889	$18,258	$2,082,053

Three Months Ended June 30, 2014 (U.S. dollars in thousands)	Insurance	Reinsurance	Corporate and Other	Total
P&C Operations:				
Professional	$267,509	$44,239	$—	$311,748
Casualty	358,990	82,929	—	441,919
Property catastrophe	—	112,562	—	112,562
Property	142,874	142,337	—	285,211
Marine, energy, aviation and satellite	—	21,065	—	21,065
Specialty	179,948	—	—	179,948
Other (1)	54,669	30,954	—	85,623
Total P&C Operations	$1,003,990	$434,086	$—	$1,438,076
Corporate and Other:				
Run-off Life operations - Annuity	$—	$—	$21,564	$21,564
Run-off Life operations - Other Life	—	—	36,954	36,954
Total Corporate and Other	$—	$—	$58,518	$58,518
Total	$1,003,990	$434,086	$58,518	$1,496,594

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

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Six Months Ended June 30, 2015 (U.S. dollars in thousands)	Insurance	Reinsurance	Corporate and Other	Total
P&C Operations:				
Professional	$552,759	$78,233	$—	$630,992
Casualty	729,807	183,995	—	913,802
Property catastrophe	—	257,526	—	257,526
Property	343,369	363,121	—	706,490
Marine, energy, aviation and satellite	(16)	50,624	—	50,608
Specialty	596,162	—	—	596,162
Other (1)	153,131	74,578	—	227,709
Total P&C Operations	$2,375,212	$1,008,077	$—	$3,383,289
Corporate and Other:				
Run-off Life operations - Annuity	$—	$—	$—	$—
Run-off Life operations - Other Life	—	—	32,764	32,764
Total Corporate and Other	$—	$—	$32,764	$32,764
Total	$2,375,212	$1,008,077	$32,764	$3,416,053

Six Months Ended June 30, 2014 (U.S. dollars in thousands)	Insurance	Reinsurance	Corporate and Other	Total
P&C Operations:				
Professional	$542,936	$94,343	$—	$637,279
Casualty	702,994	159,650	—	862,644
Property catastrophe	—	220,999	—	220,999
Property	282,607	277,576	—	560,183
Marine, energy, aviation and satellite	—	44,579	—	44,579
Specialty	356,857	—	—	356,857
Other (1)	111,036	57,027	—	168,063
Total P&C Operations	$1,996,430	$854,174	$—	$2,850,604
Corporate and Other:				
Run-off Life operations - Annuity	$—	$—	$53,361	$53,361
Run-off Life operations - Other Life	—	—	81,468	81,468
Total Corporate and Other	$—	$—	$134,829	$134,829
Total	$1,996,430	$854,174	$134,829	$2,985,433

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

6. Investments

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

Classification of Fixed Income Securities

During the second quarter of 2014, fixed maturities with a carrying value of $2.8 billion were reclassified from held to maturity ("HTM") to AFS in conjunction with the sale of XLLR, discussed in Note 3(c), "Acquisition and Disposals - Sale of Life Reinsurance Subsidiary." As a result, the Company no longer holds HTM securities. Gross unrealized gains and gross unrealized losses, net of tax, of $424.9 million and nil, respectively, related to these securities were recognized in other comprehensive income on the date of transfer. For certain annuity contracts that are subject to the Life Retro Arrangements, policy benefit reserves were historically increased for the impact of changes in unrealized gains on investments supporting such contracts as if the gains had been realized, with a corresponding entry to other

comprehensive income ("Shadow Adjustments"). In conjunction with the sale of XLLR and the related reclassification of securities from HTM to AFS, the Company recorded an additional gross charge of $440.5 million, net of tax, as a reduction of comprehensive income for such Shadow Adjustments on the date of the transfer. See Note 15, "Accumulated Other Comprehensive Income (Loss)," for further information.
All of the reclassified securities are included within the Life Funds Withheld Assets, along with certain other available for sale securities as defined in the sale and purchase agreement relating to the sale of XLLR. 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

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to GCLR. Because the Company no longer shares in the risks and rewards of the underlying performance of the Life Funds Withheld Assets, disclosures within the financial statements and accompanying notes included herein separate the Life Funds Withheld Assets from the rest of the Company's investments.

Amortized Cost and Fair Value Summary

The cost (amortized cost for fixed maturities and short-term investments), fair value, gross unrealized gains and gross unrealized (losses), including non-credit related OTTI recorded in accumulated other comprehensive income ("AOCI"), of the Company’s AFS investments as of June 30, 2015 and December 31, 2014, were as follows:

June 30, 2015 (U.S. dollars in thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-credit Related OTTI (1)
Fixed maturities - AFS - Excluding Life Funds Withheld Assets					
U.S. Government and Government-Related/Supported	$3,786,878	$56,994	$(16,766)	$3,827,106	$—
Corporate - Financials	3,194,676	61,404	(20,567)	3,235,513	—
Corporate - Non Financials (2)	6,792,840	209,968	(50,744)	6,952,064	(3,309)
RMBS – Agency	3,890,265	88,699	(20,820)	3,958,144	—
RMBS – Non-Agency	361,661	28,531	(17,921)	372,271	(57,074)
CMBS	929,466	14,903	(8,311)	936,058	(1,598)
CDO	505,865	6,733	(24,573)	488,025	(1,625)
Other asset-backed securities (2)	2,326,633	35,669	(11,915)	2,350,387	(1,516)
U.S. States and political subdivisions of the States	2,301,628	101,435	(11,790)	2,391,273	—
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	5,220,879	111,046	(71,863)	5,260,062	—
Total fixed maturities - AFS - Excluding Life Funds Withheld Assets	$29,310,791	$715,382	$(255,270)	$29,770,903	$(65,122)
Total short-term investments - Excluding Life Funds Withheld Assets	$806,990	$1,190	$(694)	$807,486	$—
Total equity securities - Excluding Life Funds Withheld Assets	$964,038	$136,219	$(26,787)	$1,073,470	$—
Total investments - AFS - Excluding Life Funds Withheld Assets	$31,081,819	$852,791	$(282,751)	$31,651,859	$(65,122)
Fixed maturities - AFS - Life Funds Withheld Assets					
U.S. Government and Government-Related/Supported	$11,501	$2,177	$—	$13,678	$—
Corporate - Financials	639,699	83,223	—	722,922	—
Corporate - Non Financials	1,439,134	226,544	—	1,665,678	—
RMBS – Agency	674	163	—	837	—
RMBS – Non-Agency	26,377	3,214	—	29,591	—
CMBS	126,539	19,078	—	145,617	—
Other asset-backed securities	164,779	22,758	—	187,537	—
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	980,215	251,013	—	1,231,228	—
	$3,388,918	$608,170	$—	$3,997,088	$—

Total fixed maturities - AFS - Life Funds Withheld Assets					
Total investments - AFS	$34,470,737	$1,460,961	$(282,751)	$35,648,947	$(65,122)

Fixed maturities - Trading - Life Funds Withheld Assets	Amortized Cost	Fair Value
U.S. Government and Government-Related/Supported	$3,628	$3,596
Corporate - Financials	194,385	187,169
Corporate - Non Financials	343,658	332,654
CMBS	262	261
Other asset-backed securities	15,016	14,823
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	254,100	252,981
Total investments - Trading - Life Funds Withheld Assets	$811,049	$791,484

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

(2) Included 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 $75.3 million and an amortized cost of $64.5 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 value of these notes.

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December 31, 2014 (U.S. dollars in thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-credit Related OTTI (1)
Fixed maturities - AFS - Excluding Life Funds Withheld Assets					
U.S. Government and Government-Related/Supported	$2,100,851	$77,889	$(6,787)	$2,171,953	$—
Corporate - Financials	2,687,797	87,058	(12,939)	2,761,916	—
Corporate - Non Financials (2)	5,774,333	278,747	(36,623)	6,016,457	(3,309)
RMBS – Agency	3,625,171	114,188	(10,783)	3,728,576	—
RMBS – Non-Agency	404,398	41,108	(18,155)	427,351	(67,918)
CMBS	1,033,819	23,987	(5,262)	1,052,544	(2,033)
CDO	717,544	1,659	(27,169)	692,034	(1,663)
Other asset-backed securities (2)	1,028,528	42,810	(6,045)	1,065,293	(1,797)
U.S. States and political subdivisions of the States	1,892,566	129,910	(1,204)	2,021,272	—
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	4,162,425	139,484	(61,836)	4,240,073	—
Total fixed maturities - AFS - Excluding Life Funds Withheld Assets	$23,427,432	$936,840	$(186,803)	$24,177,469	$(76,720)
Total short-term investments - Excluding Life Funds Withheld Assets	$257,221	$49	$(543)	$256,727	$—
Total equity securities - Excluding Life Funds Withheld Assets	$763,833	$130,689	$(26,230)	$868,292	$—
Total investments - AFS - Excluding Life Funds Withheld Assets	$24,448,486	$1,067,578	$(213,576)	$25,302,488	$(76,720)
Fixed maturities - AFS - Life Funds Withheld Assets					
U.S. Government and Government-Related/Supported	$14,866	$3,858	$—	$18,724	$—
Corporate - Financials	701,587	99,432	—	801,019	—
Corporate - Non Financials	1,706,262	310,699	—	2,016,961	—
RMBS – Agency	3,301	481	—	3,782	—
RMBS – Non-Agency	71,075	14,260	—	85,335	—
CMBS	168,886	24,281	—	193,167	—
Other asset-backed securities	238,168	35,373	—	273,541	—
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	1,397,194	391,842	—	1,789,036	—
Total fixed maturities - AFS - Excluding Life Funds Withheld Assets	$4,301,339	$880,226	$—	$5,181,565	$—
Total investments - AFS	$28,749,825	$1,947,804	$(213,576)	$30,484,053	$(76,720)

Fixed maturities - Trading - Life Funds Withheld Assets	Amortized Cost	Fair Value
Corporate - Non Financials	$1,180	$1,171
Total investments - Trading - Life Funds Withheld Assets	$1,180	$1,171

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

(2) Included 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 $79.9 million and an amortized cost of $68.4 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 value of these notes.

As of June 30, 2015 and December 31, 2014, approximately 2.5% and 3.0%, respectively, of the Company's fixed income investment portfolio at fair value, excluding Life Funds Withheld Assets, was invested in securities that were below investment grade or not rated. Approximately 14.8% and 24.9% of the gross unrealized losses in the Company's fixed income investment portfolio, excluding Life Funds Withheld Assets, as of June 30, 2015 and December 31, 2014, respectively, related to securities that were below investment grade or not rated.

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Contractual Maturities Summary
The contractual maturities of AFS fixed income securities at June 30, 2015 and December 31, 2014 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(U.S. dollars in thousands)	June 30, 2015 Amortized Cost	June 30, 2015 Fair Value	December 31, 2014 Amortized Cost	December 31, 2014 Fair Value
Fixed maturities - AFS - Excluding Life Funds Withheld Assets				
Due less than one year	$1,957,896	$1,962,391	$1,972,224	$1,980,429
Due after 1 through 5 years	12,409,937	12,584,530	8,919,037	9,113,651
Due after 5 through 10 years	5,231,268	5,305,166	4,232,396	4,412,569
Due after 10 years	1,697,800	1,813,931	1,494,315	1,705,022
	$21,296,901	$21,666,018	$16,617,972	$17,211,671
RMBS – Agency	3,890,265	3,958,144	3,625,171	3,728,576
RMBS – Non-Agency	361,661	372,271	404,398	427,351
CMBS	929,466	936,058	1,033,819	1,052,544
CDO	505,865	488,025	717,544	692,034
Other asset-backed securities	2,326,633	2,350,387	1,028,528	1,065,293
Total mortgage and asset-backed securities	$8,013,890	$8,104,885	$6,809,460	$6,965,798
Total fixed maturities - AFS - Excluding Life Funds Withheld Assets	$29,310,791	$29,770,903	$23,427,432	$24,177,469
Fixed maturities - AFS - Life Funds Withheld Assets				
Due less than one year	$87,963	$96,402	$117,048	$125,326
Due after 1 through 5 years	468,476	505,063	638,526	685,787
Due after 5 through 10 years	705,507	808,909	1,004,698	1,165,348
Due after 10 years	1,808,603	2,223,132	2,059,637	2,649,279
	$3,070,549	$3,633,506	$3,819,909	$4,625,740
RMBS – Agency	674	837	3,301	3,782
RMBS – Non-Agency	26,377	29,591	71,075	85,335
CMBS	126,539	145,617	168,886	193,167
Other asset-backed securities	164,779	187,537	238,168	273,541
Total mortgage and asset-backed securities	$318,369	$363,582	$481,430	$555,825
Total fixed maturities - AFS - Life Funds Withheld Assets	$3,388,918	$3,997,088	$4,301,339	$5,181,565
Total fixed maturities - AFS	$32,699,709	$33,767,991	$27,728,771	$29,359,034
Fixed maturities - Trading - Life Funds Withheld Assets				
Due less than one year	$42,557	$42,553	$—	$—
Due after 1 through 5 years	221,522	220,727	—	—
Due after 5 through 10 years	162,877	160,923	1,180	1,171
Due after 10 years	368,815	352,197	—	—
	$795,771	$776,400	$1,180	$1,171
CMBS	262	261	—	—
Other asset-backed securities	15,016	14,823	—	—
Total mortgage and asset-backed securities	$15,278	$15,084	$—	$—
Total fixed maturities - Trading - Life Funds Withheld Assets	$811,049	$791,484	$1,180	$1,171

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 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 impairment") represents the difference between the amortized cost of the security and the net present value of its projected future cash flows

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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 that 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 loss impairment is based on detailed analyses of underlying cash flows and other considerations. 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.
Factors considered for all securities on a quarterly basis in determining that a gross unrealized loss is not other-than-temporarily impaired include management's consideration of current and near term liquidity needs and other available sources of funds, an evaluation of the factors and time necessary for recovery and an assessment of whether the Company has the intention to sell or considers it more likely than not that it will be forced to sell a security.
Pledged Assets
Certain of the Company's invested assets are held in trust and pledged in support of insurance and reinsurance liabilities as well as credit facilities. Such pledges are largely required by the Company's operating subsidiaries that are "non-admitted" under U.S. state insurance regulations, in order for the U.S. cedant to receive statutory credit for reinsurance. Also included are Life Funds Withheld Assets as noted in Note 3(c), "Acquisition and Disposals - Sale of Life Reinsurance Subsidiary." Additionally, certain deposit liabilities and annuity contracts require the use of pledged assets. As of June 30, 2015 and December 31, 2014, the Company had $18.4 billion and $15.2 billion in pledged assets, respectively.
(b) Gross Unrealized Losses
The following is an analysis of how long the AFS securities as of June 30, 2015 and December 31, 2014 had been in a continual unrealized loss position:

	Less than 12 months		Equal to or greater than 12 months	
June 30, 2015 (U.S. dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities and short-term investments - AFS				
U.S. Government and Government-Related/Supported	$1,721,385	$(12,211)	$109,027	$(4,666)
Corporate – Financials	1,054,854	(13,737)	76,450	(6,846)
Corporate – Non Financials	2,305,696	(41,526)	146,220	(9,582)
RMBS – Agency	1,136,559	(12,171)	245,806	(8,649)
RMBS – Non-Agency	45,052	(1,959)	197,361	(15,962)
CMBS	295,914	(5,263)	100,100	(3,048)
CDO	39,969	(5,506)	322,684	(19,067)
Other asset-backed securities	1,014,257	(6,535)	59,985	(5,392)
U.S. States and political subdivisions of the States	706,360	(10,617)	17,546	(1,181)
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	1,736,079	(38,213)	459,362	(33,833)
Total fixed maturities and short-term investments - AFS	$10,056,125	$(147,738)	$1,734,541	$(108,226)
Total equity securities	$267,759	$(26,787)	$—	$—

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December 31, 2014 (U.S. dollars in thousands)	Less than 12 months Fair Value	Less than 12 months Gross Unrealized Losses	Equal to or greater than 12 months Fair Value	Equal to or greater than 12 months Gross Unrealized Losses
Fixed maturities and short-term investments - AFS				
U.S. Government and Government-Related/Supported	$251,091	$(1,196)	$342,890	$(5,603)
Corporate – Financials	387,619	(5,858)	105,155	(7,097)
Corporate – Non Financials	949,851	(28,023)	319,066	(8,657)
RMBS – Agency	134,535	(220)	512,652	(10,563)
RMBS – Non-Agency	45,378	(1,358)	202,700	(16,797)
CMBS	78,356	(385)	169,065	(4,877)
CDO	249,803	(2,666)	414,516	(24,503)
Other asset-backed securities	143,044	(2,813)	57,544	(3,232)
U.S. States and political subdivisions of the States	32,187	(210)	63,695	(994)
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	624,346	(19,043)	558,422	(43,251)
Total fixed maturities and short-term investments - AFS	$2,896,210	$(61,772)	$2,745,705	$(125,574)
Total equity securities	$191,193	$(26,230)	$—	$—

The Company had gross unrealized losses totaling $282.8 million on 2,944 securities out of a total of 8,969 held as of June 30, 2015 in its AFS - Excluding Life Funds Withheld Assets portfolio, which either it considers to be temporarily impaired or with respect to which it reflects non-credit losses on other-than-temporarily impaired assets. Individual security positions comprising this balance have been evaluated by management to determine the severity of these impairments and whether they should be considered other-than-temporary. Management believes it is more likely than not that the issuer will be able to fund sufficient principal and interest payments to support the current amortized cost. Management, in its assessment of whether securities in a gross unrealized loss position are temporarily impaired, as described above, considers the significance of the impairments. As of June 30, 2015, the AFS - Excluding Life Funds Withheld Assets portfolio included structured credit securities with gross unrealized losses of $8.8 million, which had a fair value of $6.9 million, and a cumulative fair value decline of greater than 50% of amortized cost. All of these securities are mortgage and asset-backed securities.

(c) Net Realized Gains (Losses)

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

Net Realized Gains (Losses) on Investments (U.S. dollars in thousands)	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Net realized gains (losses) on investments - excluding Life Funds Withheld Assets:				
Gross realized gains	$48,547	$118,947	$110,845	$170,160
Gross realized losses on investments sold	(27,608)	(13,487)	(74,728)	(41,744)
OTTI on investments, net of amounts transferred to other comprehensive income	(16,588)	(24,616)	(27,164)	(28,343)
	$4,351	$80,844	$8,953	$100,073
Net realized gains (losses) on investments and net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets:				
Gross realized gains	$84,641	$624	$137,769	$624
Gross realized losses on investments sold	(16,604)	—	(16,994)	—
	(2,878)	(8,771)	(8,087)	(8,771)

OTTI on investments, net of amounts transferred to other comprehensive income				
Net unrealized gains (losses) on trading securities	$(19,543)	$—	$(18,783)	$—
	$45,616	$(8,147)	$93,905	$(8,147)
Total net realized gains (losses) on investments	$49,967	$72,697	$102,858	$91,926

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The significant components of the net impairment charges of $16.6 million for investments excluding Life Funds Withheld Assets for the three months ended June 30, 2015 were:

- $6.5 million related to certain Other Investments that we no longer intend to hold for a period sufficient to recover their fair value to amortized cost.
- $4.8 million related to certain high yield securities which we no longer intend to hold for a period sufficient to recover their fair value to amortized cost.
- $4.0 million related to certain Alternatives that were in a loss position for more than 11 months.
- $0.3 million related to certain equities that were in a loss position for more than 11 months.
- $0.2 million for structured securities, principally non-Agency RMBS, where we determined that the likely recovery on these securities was below the carrying value and, accordingly, recorded an impairment of the securities to the discounted value of the cash flows expected to be received on these securities.
- $0.8 million related to foreign exchange losses.

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

Credit Loss Impairments	Three months ended June 30,		Six months ended June 30,	
(U.S. dollars in thousands)	2015	2014	2015	2014
Opening balance as of beginning of indicated period	$108,458	$171,382	$131,942	$174,805
Credit loss impairment recognized in the current period on securities not previously impaired	—	30	7,560	41
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(8,495)	(3,322)	(37,034)	(7,571)
Credit loss impairments previously recognized on securities impaired to fair value during the period	(2,629)	—	(2,629)	—
Additional credit loss impairments recognized in the current period on securities previously impaired	246	892	387	3,153
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(3,361)	(3,105)	(6,007)	(4,551)
Balance as of June 30,	$94,219	$165,877	$94,219	$165,877

During the three months ended June 30, 2015 and 2014, the $8.5 million and $3.3 million, respectively, of credit loss impairments previously recognized on securities that matured, or were paid down, prepaid or sold, included $1.7 million and $2.5 million, respectively, of non-Agency RMBS.

During the six months ended June 30, 2015 and 2014 , the $37.0 million and $7.6 million, respectively, credit loss impairments previously recognized on securities that matured, or were paid down, prepaid or sold, included $28.9 million and $5.2 million, respectively, of non-Agency RMBS.

7. Derivative Instruments

The Company enters into derivative instruments for both risk management and efficient portfolio management. The Company is exposed to potential loss from various market risks, and manages its market risks based on guidelines established by management and the Risk and Finance Committee of the Company's Board of Directors. The Company recognizes all derivatives as either assets or liabilities on the balance sheets and measures those instruments at fair value, with the changes in fair value of derivatives shown in the consolidated statement of income as "Net realized and unrealized gains (losses) on derivative instruments" unless the derivatives are designated as hedging instruments. The accounting for derivatives that are designated as hedging instruments is described in Item 8, Note 2(h), "Significant Accounting Policies - Derivative Instruments," to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

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The following table summarizes information on the location and gross amounts of derivative fair values contained in the consolidated balance sheets as of June 30, 2015 and December 31, 2014:

	June 30, 2015				December 31, 2014			
(U.S. dollars in thousands)	Asset Derivative Notional Amount	Asset Derivative Fair Value (1)	Liability Derivative Notional Amount	Liability Derivative Fair Value (1)	Asset Derivative Notional Amount	Asset Derivative Fair Value (1)	Liability Derivative Notional Amount	Liability Derivative Fair Value (1)
Derivatives designated as hedging instruments:								
Foreign exchange contracts	$1,834,298	$209,675	$720,027	$52,188	$2,300,609	$121,862	$302,211	$2,936
Total derivatives designated as hedging instruments	$1,834,298	$209,675	$720,027	$52,188	$2,300,609	$121,862	$302,211	$2,936
Derivatives not designated as hedging instruments:								
Investment Related Derivatives:								
Interest rate exposure	$10,684	$194	$33,934	$44	$394,597	$206	$20,782	$51
Foreign exchange exposure	301,260	1,628	139,215	3,786	7,385	403	207,182	4,442
Credit exposure	8,963	814	51,614	12,613	2,408	165	14,270	9,836
Financial market exposure	58,875	2,608	34,794	405	46,145	360	33,670	34
Other Non-Investment Derivatives:								
Foreign exchange contracts	79,101	164	8,517	527	—	—	81,194	282
Credit exposure	30,281	71	—	—	31,060	60	—	—
Guaranteed minimum income benefit contract	45,006	13,321	45,006	13,321	46,249	13,603	46,249	13,603
Modified coinsurance funds withheld contracts (2)	65,663	—	4,954,481	—	64,947	—	5,401,278	—
Total derivatives not designated as hedging instruments	$599,833	$18,800	$5,267,561	$30,696	$592,791	$14,797	$5,804,625	$28,248

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(1) Derivative instruments in an asset or liability position are included within Other assets or Other liabilities, respectively, in the balance sheets on a net basis where the Company has both a legal right of offset and the

intention to settle the contracts on a net basis.

(2) The fair value movements in derivative assets and liabilities relating to modified coinsurance funds withheld contracts are included within the associated asset or liability at each period end on the face of the balance sheets. Notional amounts associated with reinsurance agreements under which the Company assumes reinsurance risk are recorded as asset derivative notional amounts. Notional amounts associated with the Life Retro Arrangements under which the Company cedes reinsurance risk are recorded as liability derivative notional amounts. Included in the liability derivative notional amount as of June 30, 2015 is the cumulative net realized and unrealized loss on life retrocession embedded derivative of $381.3 million.

The following table summarizes information on the gross and net amounts of derivative fair values and associated collateral received related to derivative assets, or collateral provided related to derivative liabilities, reported in other assets and or other liabilities within our consolidated balance sheets as of June 30, 2015 and December 31, 2014:

				Gross Amounts Not Offset in the Balance Sheets		
June 30, 2015 (U.S. dollars in thousands)	Gross Amounts Recognized in the Balance Sheets	Gross Amounts Offset in the Balance Sheets	Net Amounts in the Balance Sheets	Financial Instruments	Cash Collateral	Net Amounts
Derivative Assets	$228,475	$3,239	$225,236	$—	$132,050	$93,186
Derivative Liabilities	$82,884	$3,239	$79,645	$—	$—	$79,645
December 31, 2014 (U.S. dollars in thousands)						
Derivative Assets	$136,659	$696	$135,963	$—	$78,580	$57,383
Derivative Liabilities	$31,184	$696	$30,488	$—	$—	$30,488

Derivative instruments in an asset or liability position are included within Other assets or Other liabilities, respectively, in the balance sheets on a net basis where the Company has both a legal right of offset and the intention to settle the contracts on a net basis. The Company often enters into different types of derivative contracts with a single counterparty and these contracts

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are covered under netting agreements. As of June 30, 2015 and December 31, 2014, the Company held cash collateral related to foreign currency derivative positions and certain other derivative positions of $132.1 million and $78.6 million, respectively. The assets and liabilities related to the net collateral paid or held were recorded as Other assets and Other liabilities within the balance sheets as the collateral and derivative positions are not intended to be settled on a net basis.

(a) Derivative Instruments Designated as Fair Value Hedges

The Company designates certain of its derivative instruments as fair value hedges or cash flow hedges and formally and contemporaneously documents all relationships between the hedging instruments and hedged items and links the hedging derivatives to specific assets and liabilities. The Company assesses the effectiveness of the hedge both at inception and on an on-going basis, and determines whether the hedge is highly effective in offsetting changes in fair value or cash flows of the linked hedged item.

The Company may use foreign exchange contracts to hedge the fair value of certain fixed income securities as well as to hedge certain net investments in foreign operations. In connection with the Catlin Acquisition and the FX Forwards, certain foreign exchange contracts utilized to hedge the fair value of certain net investments in foreign operations were de-designated as hedging instruments up until such time Catlin Acquisition was completed. Thereafter, these foreign exchange contracts were re-designated as hedging instruments.

The following table provides the total impact on earnings relating to derivative instruments formally designated as fair value hedges along with the impacts of the related hedged items for the three and six months ended June 30, 2015 and 2014:

Derivatives Designated as Fair Value Hedges:		Hedged Items - Amount of Gain/(Loss) Recognized in Income Attributable to Risk	
Three Months Ended June 30, 2015 (U.S. dollars in thousands)	Gain/(Loss) Recognized in Income on Derivative	Fixed Maturity Investments	Ineffective Portion of Hedging Relationship - Gain/(Loss)
Interest rate exposure	$—		
Foreign exchange exposure	—		
Total	$—	$—	$—
Three Months Ended June 30, 2014 (U.S. dollars in thousands)			
Interest rate exposure	$—		
Foreign exchange exposure	(9,132)		
Total	$(9,132)	$7,082	$(2,050)
Six Months Ended June 30, 2015 (U.S. dollars in thousands)			
Interest rate exposure	$—		
Foreign exchange exposure	—		
Total	$—	$—	$—

Six Months Ended June 30, 2014			
(U.S. dollars in thousands)			
Interest rate exposure	$—		
Foreign exchange exposure	(15,663)		
Total	$(15,663)	$15,407	$(256)

The gains (losses) recorded on both the derivative instruments and specific items designated as being hedged as part of the fair value hedging relationships outlined above along with any associated ineffectiveness in the relationships are recorded through Net realized and unrealized gains (losses) on derivative instruments in the income statement.

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Settlement of Fair Value Hedges
A summary of the fair value hedges that have been settled and their impact on results during the indicated periods as well as the remaining balance of fair value hedges and average years remaining to maturity as of June 30, 2015 and 2014 are shown below:

Settlement of Fair Value Hedges - Summary	Fair Value Hedges - Notes Payable and Debt		Fair Value Hedges - Deposit Liabilities	
	June 30,		June 30,	
(U.S. dollars in thousands, except years)	2015	2014	2015	2014
Cumulative reduction to interest expense	$—	$20,810	$99,141	$90,615
Remaining balance	$—	$814	$134,054	$142,580
Weighted average years remaining to maturity	0.0	0.2	22.4	24.0

During the second quarter of 2014, the Company negotiated the termination of one of its larger structured indemnity contracts. This contract had previously been designated as a fair value hedge that was settled. The remaining fair value adjustment of $47.0 million that was being amortized as a reduction of interest expense over the remaining term of the contract was recorded as an adjustment to interest expense at the termination date. As a result of the termination, a net decrease of $28.7 million was recorded to interest expense reflecting the realization of the remaining balance of the fair value hedge adjustment, partially offset by an accretion rate adjustment due to changes in cash flows.
(b) Derivative Instruments Designated as Hedges of the Net Investment in a Foreign Operation
The Company utilizes foreign exchange contracts to hedge the fair value of certain net investments in foreign operations. During the three and six months ended June 30, 2015 and 2014, the Company entered into foreign exchange contracts that were formally designated as hedges of investments in foreign subsidiaries, the majority of which have functional currencies of either U.K. sterling or the Euro. There was no ineffectiveness in these transactions.
The following table provides the weighted average U.S. dollar equivalent of foreign denominated net assets that were hedged and the resulting derivative gain (loss) that was recorded in the Foreign currency translation adjustment, net of tax, account within AOCI for the three and six months ended June 30, 2015 and 2014:

Derivative Instruments Designated as Hedges of the Net Investment in a Foreign Operation - Summary	Three months ended June 30,		Six months ended June 30,	
(U.S. dollars in thousands)	2015	2014	2015	2014
Weighted average of U.S. dollar equivalent of foreign denominated net assets	$1,815,593	$2,270,090	$1,222,267	$2,478,772
Derivative gains (losses) (1)	$(30,498)	$(2,170)	$36,272	$(1,210)

(1) Derivative gains (losses) from derivative instruments designated as hedges of the net investment in a foreign operation are recorded in the cumulative translation adjustment account within AOCI for each period.

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(c) Derivative Instruments Not Formally Designated As Hedging Instruments
The following table provides the total impact on earnings relating to derivative instruments not formally designated as hedging instruments under authoritative accounting guidance and from the ineffective portion of fair value hedges. The impacts are all recorded through Net realized and unrealized gains (losses) on derivatives in the income statement for the three and six months ended June 30, 2015 and 2014:

Net Realized and Unrealized Gains (Losses) on Derivative Instruments	Three months ended June 30,		Six months ended June 30,	
(U.S. dollars in thousands)	2015	2014	2015	2014
Investment Related Derivatives:				
Interest rate exposure	$(6,563)	$8,978	$3,073	$9,326
Foreign exchange exposure	482	(1,490)	(880)	1,798
Credit exposure	(386)	411	(305)	7
Financial market exposure	(1,645)	2,508	1,398	3,378
Financial Operations Derivatives:				
Credit exposure	—	447	—	(4,353)
Other Non-Investment Derivatives:				
Foreign exchange contracts	55,372	—	57,431	—
Credit exposure	132	—	1,478	—
Guaranteed minimum income benefit contract	—	633	—	2,257
Modified coinsurance funds withheld contract	1,117	2,162	2,835	1,252
Total gain (loss) recognized in income from derivatives not designated as hedging instruments	$48,509	$13,649	$65,030	$13,665
Amount of gain (loss) recognized in income from ineffective portion of fair value hedges	—	(2,050)	—	(256)
Net realized and unrealized gains (losses) on derivative instruments	$48,509	$11,599	$65,030	$13,409
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	$239,174	$(17,546)	$9,807	$(17,546)

The Company’s objectives in using these derivatives are explained below.
(d)(i) Investment Related Derivatives
The Company, either directly or through its investment managers, may use derivative instruments within its investment portfolio, including interest rate swaps, inflation swaps, commodity contracts, total return swaps, credit derivatives (single name and index credit default swaps), options, forward contracts and financial futures (foreign exchange, bond and stock index futures), primarily as a means of economically hedging exposures to interest rate, credit spread, equity price changes and foreign currency risk or, in limited instances, for efficient portfolio management. When using cleared (exchange traded) derivatives, the Company is exposed to the credit risk of the applicable clearing house and of the Company's future commissions merchant. When using uncleared (over-the-counter) derivatives, the Company is exposed to credit risk in the event of non-performance by the counterparties under any derivative contracts, although the Company generally seeks to use credit support arrangements with counterparties to help manage this risk.
Investment Related Derivatives – Interest Rate Exposure
The Company utilizes risk management and overlay strategies that incorporate the use of derivative financial instruments, primarily to manage its fixed income portfolio duration and net economic exposure to interest rate risks. The Company may also use interest rate swaps to convert certain liabilities from a fixed rate to a variable rate of

interest or to convert a variable rate of interest from one basis to another.

Investment Related Derivatives – Foreign Exchange Exposure

The Company has exposure to foreign currency exchange rate fluctuations through its operations and in its investment portfolio. The Company uses foreign exchange contracts to manage its exposure to the effects of fluctuating foreign currencies on the value of certain of its foreign currency fixed maturities. These contracts are not designated as specific hedges for financial reporting purposes and, therefore, realized and unrealized gains and losses on these contracts are recorded in income in the period in which they occur. These contracts generally have maturities of twelve months or less.

In addition, certain of the Company's investment managers may, subject to investment guidelines, enter into forward contracts.

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Investment Related Derivatives – Credit Exposure
Credit derivatives may be purchased within the Company's investment portfolio in the form of single name, basket or index credit default swaps and swaptions, which are used to mitigate credit exposure through a reduction in credit spread duration (i.e., macro credit strategies rather than single-name credit hedging) or exposure to securities of selected issuers, including issuers that are not held in the underlying fixed income portfolio.
Investment Related Derivatives – Financial Market Exposure
Stock index futures may be purchased within the Company's investment portfolio in order to create synthetic equity exposure and to add value to the portfolio with overlay strategies where market inefficiencies are believed to exist. From time to time, the Company may enter into other financial market exposure derivative contracts on various indices including, but not limited to, inflation and commodity contracts.
(d)(ii) Financial Operations Derivatives – Credit Exposure
During the fourth quarter of 2014, the remaining financial operations credit derivative exposure, which was written as part of the Company's previous financial lines business and is outside of the Company's investment portfolio, was terminated. The Company has no continuing financial operations derivative credit exposures.
(d)(iii) Other Non-Investment Derivatives
Foreign Exchange Contracts
On January 9, 2015, the Company entered into the FX Forwards with Morgan Stanley Capital Services LLC and Goldman Sachs International. The purpose of the FX Forwards was to mitigate risk of foreign currency exposure related to the Catlin Acquisition. Following the close of the Catlin Acquisition, the FX Forwards were settled.
In connection with the Catlin Acquisition and the FX Forwards, during the quarter, certain foreign exchange contracts utilized to hedge the fair value of certain net investments in foreign operations were de-designated as hedging instruments.
Credit Exposure
During the year ended December 31, 2014, the Company entered into a non-investment related credit derivative relating to a number of reference pool mortgage tranches associated with actual mortgage loans that were securitized into agency mortgage-backed securities and sold as Structured Agency Credit Risk Notes. As of June 30, 2015, there was no reported event of default on this obligation. As of June 30, 2015 and December 31, 2014, the notional amount outstanding related to the derivative was $30.3 million and $31.1 million, respectively, and the Company had recorded a derivative asset of $0.1 million and $0.1 million, respectively. During the three months ended June 30, 2015, the Company recorded Net realized and unrealized gains of $0.1 million relating to this credit derivative. The credit derivative is recorded at fair value based upon models developed by the Company. Significant unobservable inputs considered in the valuation include the impact of changes in interest rates, future default, delinquency and prepayment rates, credit spreads, changes in credit quality, and other market factors.
Guaranteed Minimum Income Benefit Contract
The Company also has derivatives embedded in certain reinsurance contracts. For a certain life reinsurance contract, the Company pays the ceding company a fixed amount equal to the estimated present value of the excess of the guaranteed benefit over the account balance upon the policyholder's election to take the income benefit. The fair value of this derivative is determined based on the present value of expected cash flows.
Modified Coinsurance and Funds Withheld Contracts
The Company has modified coinsurance and funds withheld reinsurance agreements that provide for a return to be paid to the Company based on a portfolio of fixed income securities. As such, the agreements contain an embedded derivative. The embedded derivative is bifurcated from the funds withheld balance and recorded at fair value with changes in fair value recognized in earnings through Net realized and unrealized gains (losses) on derivative instruments.
Modified Coinsurance Funds Withheld Reinsurance Agreements - Life Retrocession Embedded Derivative
In addition, the Company has entered into Life Retro Arrangements, as described in Note 3(c), "Acquisition and Disposals - Sale of Life Reinsurance Subsidiary." The embedded derivative related to the Life Retro Arrangements is

recorded at fair value with changes in fair value recognized in earnings through Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets.

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The change in the value of the life retrocession embedded derivative includes the interest income, realized and unrealized gains and losses on Life Funds Withheld Assets and certain related expenses subsequent to May 30, 2014 as follows:

Components of Life Retrocession Embedded Derivative and Derivative Instruments - Life Funds Withheld Assets:	Three months ended June 30,		Six Months Ended June 30,	
(U.S. dollars in thousands)	2015	2014	2015	2014
Interest income - Life Funds Withheld Assets	$(47,873)	(19,944)	(98,869)	(19,944)
Realized and unrealized gains (losses) - Life Funds Withheld Assets	321,038	1,893	168,208	1,893
Other	59	505	155	505
Net realized and unrealized gains (losses) on life retrocession embedded derivative	$273,224	$(17,546)	$69,494	$(17,546)
Net adjustments related to future policy benefit reserves, net of tax	$(35,929)	$—	$(47,883)	$—
Net realized and unrealized gains (losses) on derivative instruments - Life Funds Withheld Assets	$1,879	$—	$(11,804)	$—
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	$239,174	$(17,546)	$9,807	$(17,546)

(e) Contingent Credit Features

Certain derivative agreements entered into by the Company or its subsidiaries contain credit rating downgrade provisions that permit early termination of the agreements by the counterparty if collateral is not posted following failure to maintain certain credit ratings from one or more of the principal credit rating agencies. If the Company were required to terminate such agreements early due to a credit rating downgrade, it could potentially be in a net liability position at the time of settlement of such agreements. The aggregate fair value of all derivative agreements containing such rating downgrade provisions that were in a liability position and any collateral posted under these agreements as of June 30, 2015 and December 31, 2014 were as follows:

Contingent Credit Features - Summary: (U.S. dollars in thousands)	June 30, 2015	December 31, 2014
Aggregate fair value of derivative agreements with downgrade provisions in a net liability position	$21,545	$5,770
Collateral posted to counterparty	$12,390	$—

8. Goodwill and Other Intangible Assets

The Company has goodwill and intangible assets of $2.2 billion and $448.0 million at June 30, 2015 and December 31, 2014, respectively.

In the second quarter of 2015, as a result of the transaction described in Note 3(a), "Acquisition and Disposals - Catlin Acquisition," the Company recognized additional intangible assets. The transaction was accounted for using the acquisition method under which the Company recorded the identifiable assets acquired, including indefinite-lived and definite-lived intangible assets, and liabilities assumed, at their acquisition fair values, and recorded the excess of consideration transferred over the net assets acquired as goodwill.

During the first quarter of 2014, goodwill and intangible assets increased as a result of the completion of an acquisition. The transaction was accounted for using the acquisition method under which the Company recorded the identifiable assets acquired - including definite-lived intangible assets, and liabilities assumed, at their acquisition date fair values, and recorded the excess of consideration transferred over the net assets acquired as goodwill.

The following table presents an analysis of intangible assets broken down between goodwill, intangible assets with an indefinite life and intangible assets with a definite life for the six months ended June 30, 2015:

(U.S. dollars in thousands)	Goodwill	Intangible assets with an indefinite life	Intangible assets with a definite life	Total
Balance at December 31, 2014	$415,936	$15,366	$16,650	$447,952
Additions	778,043	673,000	315,000	1,766,043
Amortization	—	—	(4,335)	(4,335)
Foreign Currency Translation	(3,749)	—	—	(3,749)
Balance at June 30, 2015	$1,190,230	$688,366	$327,315	$2,205,911

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The following table summarizes the intangible assets and their related useful lives recorded in connection with the Catlin Acquisition as of the Acquisition Date:

(U.S. dollars in thousands)	Amount	Estimated Useful Life
Lloyd's - Syndicate capacity	$660,000	Indefinite
Insurance licenses	13,000	Indefinite
Total identified indefinite life intangible assets	$673,000	
Lloyd's - Managing agent contracts	15,000	15 years
Distribution network	290,000	20 years
Trademarks / Trade names	10,000	2 years
Total identified definite life intangible assets	$315,000	
Total identified intangible assets	$988,000	

An explanation of the intangible assets is as follows:

- Lloyd's - Syndicate capacity - The syndicate capacity of two Lloyd's syndicates, which will allow the Company to write insurance business in the Lloyd's market globally and realize the profits from that business. The value of the syndicate capacity includes the reputational value of participation in the Lloyd's market, and the value of trade names and licenses associated with syndicate ownership.
- Insurance licenses - U.S. State insurance licenses owned by Catlin at the time of Catlin Acquisition.
- Lloyds - Managing agent contracts - As the managing agent for certain Lloyd's syndicates, the Company has contracts with the syndicate members to provide underwriting services, for which it earns managing agent fees and a profit commission.
- Distribution network - A network of hundreds of retail and wholesale brokers worldwide, including specialty and regional brokerages, which allow the Company to form closer relationships with clients and brokers worldwide, which aids business retention.
- Trademarks / Trade names - The Catlin trademarks / trade names are utilized to attract customers for the turnkey solutions provided under the Company's managing agent contracts, and to generate premium from the non-Lloyd's platform underwriting products for which the Catlin brand is known.

9. Share Capital

(a) Authorized and Issued

Ordinary Shares

In connection with the Catlin Acquisition described in Note 3(a), "Acquisition and Disposals - Catlin Acquisition," the Company issued 49.9 million ordinary shares to Catlin shareholders, which had an aggregate value as of the Acquisition Date of $1.85 billion.

The following table is a summary of ordinary shares issued and outstanding:

(in thousands)	June 30, 2015	December 31, 2014
Balance – beginning of period	255,183	278,253
Exercise of options	220	424
Net issuance of restricted shares	1,536	1,246
Share buybacks (1)	(2,982)	(24,740)
Issue of shares	49,935	—
Balance – end of period	303,892	255,183

(1) Includes share buybacks associated with authorized share buyback programs as well as purchases related to satisfying tax withholding obligations of employees in connection with the vesting of restricted shares granted under the Company's equity compensation programs.

Buybacks of Ordinary Shares

On February 21, 2014, XL-Ireland announced that its Board of Directors approved an increase to the Share Buyback Program, authorizing the purchase of up to $1.0 billion of ordinary shares, which included the amounts that remained under the

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previous Share Buyback Program. The Company had suspended active share buybacks through the close of the Catlin Acquisition; however, following the close of the Catlin Acquisition, the Company resumed buybacks under the Share Buyback Program. During the three and six months ended June 30, 2015, the Company purchased and canceled 2.9 million ordinary shares under the Share Buyback Program for $110.0 million. As of June 30, 2015, $157.6 million remained available for purchase under the Share Buyback Program.

Acquisition of Non-controlling Preferred Shares

In connection with the Catlin Acquisition described in Note 3(a), "Acquisition and Disposals - Catlin Acquisition," the Company assumed responsibility for 0.6 million non-cumulative perpetual preferred shares issued by Catlin-Bermuda, par value of $0.01 per share, with liquidation preference of $1,000 per share, plus declared and unpaid dividends ("CICL Prefs"). Dividends at a rate of 7.249 percent on the liquidation preference are payable semi-annually on January 19 and July 19 in arrears as and when declared up to but not including January 2017. Thereafter, if the CICL-Prefs have not yet been redeemed, dividends will be payable quarterly at a rate equal to 2.975 percent plus the three-month LIBOR rate of the liquidation preference. The fair value on the date of Catlin Acquisition was $562.3 million, which was based on the last trade price of the security prior to the Catlin Acquisition.

(b) Stock Plans

The Company's performance incentive programs provide for grants of stock options, restricted stock, equity-classed restricted stock units, liability-classed restricted stock units, performance units and stock appreciation rights. Share-based compensation granted by the Company generally contains a vesting period of three or four years, and certain awards also contain performance conditions. The Company records compensation expense related to each award over its vesting period, incorporating the best estimate of the expected outcome of performance conditions where applicable. Compensation expense is generally recorded on a straight line basis over the vesting period of an award. See Item 8, Note 20, "Share Capital," to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 for further information on the Company's performance incentive programs and associated accounting.

During the six months ended June 30, 2015, the Company granted approximately 2.0 million stock options with a weighted-average grant date fair value of $6.51 per option. The fair value of the options issued was estimated on the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions:

Dividend yield	2.00	%
Risk free interest rate	1.70	%
Volatility	21.6	%
Expected lives	6.0 years	

During the six months ended June 30, 2015, the Company granted approximately 40,570 restricted stock awards to certain employees and directors of the Company and its subsidiaries with an aggregate grant date fair value of approximately $1.5 million. The award recipients generally have the rights and privileges of a shareholder as to the restricted stock, including the right to receive dividends contingent upon the vesting of the restricted stock and the right to vote such restricted stock. The recipients are not entitled to receive delivery of a stock certificate prior to vesting nor may any restricted stock be sold, transferred, pledged, or otherwise disposed of prior to the satisfaction of all vesting requirements.

During the six months ended June 30, 2015, the Company granted approximately 1.5 million equity-classed restricted stock units to certain employees of the Company and its subsidiaries with an aggregate grant date fair value of approximately $55.4 million. Each equity-classed restricted stock unit represents the Company's obligation to deliver to the holder one ordinary share, and grants vest in three equal installments upon the first, second and third anniversaries of the date of grant. Equity-classed restricted stock units are granted at the closing market price on the day of grant and entitle the holder to receive dividends declared and paid in the form of additional ordinary shares contingent upon vesting.

During the six months ended June 30, 2015, the Company granted approximately 2.5 million liability-classed stock units to certain employees of the Company and its subsidiaries with an aggregate grant date fair value of approximately $93.4 million. Each liability-classed restricted stock unit represents the Company's obligation to deliver to the holder a cash payment equivalent to the value of one ordinary share. The grants may vest either in three equal installments upon the first, second and third anniversaries of the date of grant; or in two equal installments upon the first and second anniversaries of the date of grant. Liability-classed restricted stock units are granted at the closing market price on the day of grant and entitle the holder to receive dividends declared and are paid in cash contingent upon vesting.

During the six months ended June 30, 2015, the Company granted approximately 0.8 million performance units (representing a potential maximum share payout of approximately 1.6 million ordinary shares) to certain employees with an aggregate grant date fair value of approximately $28.2 million. The performance units issued in 2015 vest after three years,

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subject to the achievement of stated market metrics, and entitle the holder to ordinary shares of the Company. Performance units issued prior to 2015 vest subject to the achievement of stated performance metrics. Each grant of performance units has a target number of shares, with final payouts ranging from 0% to 200% of the grant amount depending upon the achievement of stated market metrics along with each employee's continued service through the vesting date. Performance units issued prior to 2015 have a similar range of targeted number of shares, but payouts are dependent upon the achievement of stated performance metrics along with each employee's continued service through the vesting date. Furthermore, performance units granted in the current year are granted at the closing market price on the day of grant and entitle the holder to receive dividends declared and paid in the form of additional ordinary shares contingent upon vesting. There are no dividend rights associated with performance units issued prior to 2015. Performance targets are based on relative and absolute financial performance metrics.

10. Notes Payable and Debt and Financing Arrangements

As of June 30, 2015, the Company's financing structure, which includes senior and subordinated notes, and bank and loan facilities available from a variety of sources, including commercial banks, is as follows:

	June 30, 2015		December 31, 2014	
(U.S. dollars in thousands)	Commitment/ Debt (1)	In Use/ Outstanding (2)	Commitment/ Debt (1)	In Use/ Outstanding (2)
Debt:				
2.30% Senior Notes due 2018	300,000	297,679	300,000	