

XL GROUP PLC
Form 10-Q
November 05, 2010

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

FORM 10-Q

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from ____ to ____

Commission file number 1-10804

XL GROUP

Public Limited Company

(Exact name of registrant as specified in its charter)

Ireland
(State or other jurisdiction of
incorporation or organization)

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

No. 1 Hatch Street Upper, 4th Floor, Dublin 2, Ireland
(Address of principal executive offices and zip code)
+353 (1) 405-2033
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

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As of November 3, 2010, there were 323,225,555 outstanding Class A Ordinary Shares, \$0.01 par value per share, of the registrant.

XL GROUP PUBLIC LIMITED COMPANY

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

XL GROUP PLC

CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2010	December 31, 2009
<i>(U.S. dollars in thousands, except share data)</i>		
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost: 2010, \$25,860,420; 2009, \$28,798,504)	\$ 26,008,178	\$ 27,512,032
Equity securities, at fair value (cost: 2010, \$18,620; 2009, \$12,344)	21,547	17,779
Short-term investments, at fair value (amortized cost: 2010, \$1,792,557; 2009, \$1,767,197)	1,802,080	1,777,360
	<hr/>	<hr/>
Total investments available for sale	27,831,805	29,307,171
Fixed maturities, held to maturity at amortized cost (fair value: 2010, \$2,937,835; 2009, \$530,319)	\$ 2,761,380	\$ 546,067
Investments in affiliates	1,055,863	1,185,604
Other investments	878,458	783,189
	<hr/>	<hr/>
Total investments	32,527,506	31,822,031
Cash and cash equivalents	3,957,629	3,643,697
Accrued investment income	357,555	350,055
Deferred acquisition costs	675,688	654,065
Ceded unearned premiums	798,762	711,875
Premiums receivable	2,560,294	2,597,602
Reinsurance balances receivable	194,668	374,844
Unpaid losses and loss expenses recoverable	3,611,975	3,584,028
Net receivable from investments sold		84,617
Goodwill and other intangible assets	840,972	845,129
Deferred tax asset	116,124	240,425
Other assets	654,868	717,864
	<hr/>	<hr/>
Total assets	\$ 46,296,041	\$ 45,626,232
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Unpaid losses and loss expenses	\$ 20,664,885	\$ 20,823,524
Deposit liabilities	1,771,489	2,208,699
Future policy benefit reserves	5,183,705	5,490,119
Unearned premiums	3,824,260	3,651,310
Notes payable and debt	2,465,901	2,451,417
Reinsurance balances payable	312,432	378,887
Net payable for investments purchased	133,286	36,979
Deferred tax liability	93,170	46,557
Other liabilities	905,403	923,650
	<hr/>	<hr/>
Total liabilities	\$ 35,354,531	\$ 36,011,142
Commitments and Contingencies		
Redeemable Series C preference ordinary shares, 20,000,000 authorized, par value \$0.01; Issued and outstanding: (2010, 2,876,000; 2009, 7,306,920)	\$ 71,900	\$ 182,673

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Shareholders' Equity:		
Series E preference ordinary shares, 1,000,000 authorized, par value \$0.01; Issued and outstanding: (2010, 1,000,000; 2009, 1,000,000)	10	10
Class A ordinary shares, 999,990,000 authorized, par value \$0.01; Issued and outstanding: (2010, 328,153,403; 2009, 342,118,986)	3,282	3,421
Additional paid in capital	10,232,134	10,474,688
Accumulated other comprehensive income (loss)	274,187	(1,142,467)
Retained earnings	357,774	94,460
	<u> </u>	<u> </u>
Shareholders' equity attributable to XL Group plc	\$ 10,867,387	\$ 9,430,112
Non-controlling interest in equity of consolidated subsidiaries	2,223	2,305
	<u> </u>	<u> </u>
Total shareholders' equity	\$ 10,869,610	\$ 9,432,417
	<u> </u>	<u> </u>
Total liabilities, redeemable preference ordinary shares and shareholders' equity	\$ 46,296,041	\$ 45,626,232
	<u> </u>	<u> </u>

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC

CONSOLIDATED STATEMENTS OF INCOME

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine months Ended September 30,	
	2010	2009	2010	2009
<i>(U.S. dollars in thousands, except earnings per share data)</i>				
Revenues:				
Net premiums earned	\$ 1,365,327	\$ 1,445,719	\$ 4,036,573	\$ 4,326,940
Net investment income	296,730	327,145	907,648	1,003,459
Realized investment gains (losses):				
Net realized gains (losses) on investments sold	(30,793)	(3,829)	(30,751)	33,794
Other-than-temporary impairments on investments	(27,377)	(459,344)	(114,627)	(860,004)
Other-than-temporary impairments on investments transferred to other comprehensive income	(10,585)	137,653	(20,939)	168,323
Total net realized (losses) on investments	(68,755)	(325,520)	(166,317)	(657,887)
Net realized and unrealized gains (losses) on derivative instruments	12,473	(9,133)	(27,903)	(9,571)
Net income from investment fund affiliates	3,105	42,288	30,367	52,481
Fee income and other	11,262	8,519	29,215	30,501
Total revenues	\$ 1,620,142	\$ 1,489,018	\$ 4,809,583	\$ 4,745,923
Expenses:				
Net losses and loss expenses incurred	\$ 811,980	\$ 818,238	\$ 2,451,345	\$ 2,388,149
Claims and policy benefits	144,358	185,067	391,476	517,614
Acquisition costs	198,173	212,846	579,870	654,337
Operating expenses	236,193	234,096	710,168	766,730
Exchange (gains) losses	44,540	(16,843)	(8,819)	103,754
Interest expense	58,609	53,469	156,828	169,008
Loss on termination of guarantee			23,500	
Amortization of intangible assets	465	465	1,394	1,394
Total expenses	\$ 1,494,318	\$ 1,487,338	\$ 4,305,762	\$ 4,600,986
Income before income tax and income from operating affiliates	\$ 125,824	\$ 1,680	\$ 503,821	\$ 144,937
Provision for income tax	(29,810)	(3,616)	(102,622)	(65,614)
Income from operating affiliates	14,035	23,027	46,654	30,366
Net income	\$ 110,049	\$ 21,091	\$ 447,853	\$ 109,689
Non-controlling interest in net (income) loss of subsidiary	(6)	7	75	47
Net income attributable to XL Group plc	\$ 110,043	\$ 21,098	\$ 447,928	\$ 109,736
Preference share dividends	(32,500)	(32,500)	(67,194)	(74,626)
Gain on redemption of Series C Preference Ordinary Shares			16,616	211,816
Net income attributable to ordinary shareholders	\$ 77,543	\$ (11,402)	\$ 397,350	\$ 246,926
Weighted average ordinary shares and ordinary share equivalents outstanding basic (in thousands)	338,724	342,118	340,927	339,095
Weighted average ordinary shares and ordinary share equivalents outstanding diluted (in thousands)	339,819	342,620	341,764	339,349

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Earnings per ordinary share and ordinary share equivalent - basic	\$ 0.23	\$ (0.03)	\$ 1.17	\$ 0.73
Earnings per ordinary share and ordinary share equivalent - diluted	\$ 0.23	\$ (0.03)	\$ 1.16	\$ 0.73

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine months Ended September 30,	
	2010	2009	2010	2009
<i>(U.S. dollars in thousands)</i>				
Net income attributable to XL Group plc	\$ 110,043	\$ 21,098	\$ 447,928	\$ 109,736
Impact of adoption of new authoritative other-than-temporary (OTTI) guidance, net of tax				(229,670)
Impact of adoption of new authoritative embedded derivative guidance, net of tax	31,917		31,917	
Change in net unrealized gains on investments, net of tax	430,626	1,777,621	1,310,958	2,104,101
Change in other-than-temporary impairment losses recognized in other comprehensive income, net of tax	49,465	(128,004)	81,102	(153,599)
Change in underfunded pension liability	(4,045)	180	(478)	(136)
Change in value of cash flow hedge	110	111	330	329
Foreign currency translation adjustments, net	104,847	85,908	(3,461)	175,547
Change in net unrealized gain (loss) on future policy benefit reserves		1,825	(3,714)	3,832
Comprehensive income	\$ 722,963	\$ 1,758,739	\$ 1,864,582	\$ 2,010,140

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	(Unaudited) Nine months Ended September 30,	
	2010	2009
<i>(U.S. dollars in thousands)</i>		
Non-controlling Interest in Equity of Consolidated Subsidiaries:		
Balance beginning of year	\$ 2,305	\$ 1,598
Non-controlling interest share in net income (loss) of subsidiary	(75)	(47)
Non-controlling interest share in change in accumulated other comprehensive (income) loss	(7)	811
Balance end of period	\$ 2,223	\$ 2,362
Series E Preference Ordinary Shares:		
Balance beginning of year	\$ 10	\$ 10
Balance end of period	\$ 10	\$ 10
Class A Ordinary Shares:		
Balance beginning of year	\$ 3,421	\$ 3,308
Issuance of Class A ordinary shares		115
Exercise of stock options		1
Repurchase of shares	(139)	(3)
Balance end of period	\$ 3,282	\$ 3,421
Additional Paid in Capital:		
Balance beginning of year	\$ 10,474,688	\$ 9,792,371
Issuance of Class A ordinary shares	1,102	742,172
Repurchase of Class A ordinary shares	(270,572)	(575)
Dividends on Class A ordinary shares		(68,389)
Dividends on preference ordinary shares		(42,126)
Exercise of stock options, net of tax	790	
Share based compensation expense	26,126	39,814
Balance end of period	\$ 10,232,134	\$ 10,463,267
Accumulated Other Comprehensive Income (Loss):		
Balance beginning of year	\$ (1,142,467)	\$ (3,364,927)
Impact of adoption of new authoritative OTTI guidance, net of tax		(229,670)
Impact of adoption of new authoritative embedded derivative guidance, net of tax	31,917	
Change in net unrealized gains/losses on investment portfolio, net of tax	1,285,845	2,090,258
Change in net unrealized gains/losses on affiliate and other investments, net of tax	25,113	13,843
Change in OTTI losses recognized in other comprehensive income, net of tax	81,102	(153,599)
Change in underfunded pension liability	(478)	(136)
Change in value of cash flow hedge	330	329
Foreign currency translation adjustments	(3,461)	175,547
Change in net unrealized gain (loss) on future policy benefit reserves	(3,714)	3,832
Balance end of period	\$ 274,187	\$ (1,464,523)
Retained Earnings (Deficit):		
Balance beginning of year	\$ 94,460	\$ (315,529)

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Impact of adoption of new authoritative OTTI guidance, net of tax		229,670
Impact of adoption of new authoritative embedded derivative guidance, net of tax	(31,917)	
Net income attributable to XL Group plc	447,928	109,736
Dividends on Series E preference ordinary shares	(67,194)	(32,500)
Dividends on Class A ordinary shares	(102,119)	(34,213)
Gain on redemption of Series C preference ordinary shares	16,616	211,816
	<u> </u>	<u> </u>
Balance end of period	\$ 357,774	\$ 168,980
	<u> </u>	<u> </u>
Total Shareholders Equity	\$ 10,869,610	\$ 9,173,517
	<u> </u>	<u> </u>

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC

CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Unaudited) Nine months Ended September 30,	
	2010	2009
<i>(U.S. dollars in thousands)</i>		
Cash flows (used in) provided by operating activities:		
Net income	\$ 447,853	\$ 109,689
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Non-controlling interest in net (income) loss of subsidiary	75	47
Net realized losses on sales of investments	166,317	657,887
Net realized and unrealized losses on derivative instruments	27,903	9,571
Amortization of premiums (discounts) on fixed maturities	39,354	(16,512)
(Income) loss from investment and operating affiliates	(77,021)	(82,847)
Amortization of deferred compensation	23,172	25,376
Accretion of convertible debt	751	749
Accretion of deposit liabilities	81,093	32,401
Unpaid losses and loss expenses	(70,305)	(771,209)
Future policy benefit reserves	(137,333)	(100,948)
Unearned premiums	203,165	(142,345)
Premiums receivable	(9,184)	247,838
Unpaid losses and loss expenses recoverable	(27,010)	231,680
Ceded unearned premiums	(88,599)	(27,634)
Reinsurance balances receivable	177,493	109,921
Deferred acquisition costs	(29,262)	(39,601)
Reinsurance balances payable	(62,689)	(47,926)
Deferred tax asset	52,636	(40,378)
Other assets	(95,489)	25,013
Other liabilities	(28,906)	(190,654)
Other	235,262	34,965
Total adjustments	\$ 381,423	\$ (84,606)
Net cash provided by (used in) operating activities	\$ 829,276	\$ 25,083
Cash flows provided by (used in) investing activities:		
Proceeds from sale of fixed maturities and short-term investments	\$ 3,807,049	\$ 6,960,410
Proceeds from redemption of fixed maturities and short-term investments	2,114,283	4,013,162
Proceeds from sale of equity securities	66,893	356,344
Purchases of fixed maturities and short-term investments	(5,527,491)	(11,752,333)
Purchases of equity securities	(71,629)	(18,967)
Net dispositions of investment affiliates	230,303	724,800
Other investments, net	4,249	(139,890)
Net cash provided by (used in) investing activities	\$ 623,657	\$ 143,526
Cash flows (used in) financing activities:		
Proceeds from issuance of Class A ordinary shares	\$ 790	\$ 745,000
Repurchase of Class A ordinary shares	(270,815)	(576)
Redemption of Series C preference ordinary shares	(94,157)	(104,718)
Dividends paid on Class A ordinary shares	(101,766)	(102,565)
Dividends paid on preference ordinary shares	(40,267)	(55,751)
Deposit liabilities	(623,512)	(198,353)
Repayment of debt		(745,000)
Collateral received on securities lending		108,906

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Collateral returned on securities lending		(351,568)
Net cash (used in) financing activities	\$ (1,129,727)	\$ (704,625)
Effects of exchange rate changes on foreign currency cash	(9,274)	88,467
Increase (decrease) in cash and cash equivalents	313,932	(447,549)
Cash and cash equivalents beginning of period	3,643,697	4,353,826
Cash and cash equivalents end of period	\$ 3,957,629	\$ 3,906,277

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation and Consolidation

Prior to July 1, 2010, unless the context otherwise indicates, references herein to the Company are to, and these financial statements include the accounts of, XL Group Ltd. (formerly, XL Capital Ltd), a Cayman Islands exempted company (XL-Cayman), and its consolidated subsidiaries. On and subsequent to July 1, 2010, unless the context otherwise indicates, references herein to the Company are to, and these financial statements include the accounts of, XL Group plc, an Irish public limited company (XL-Ireland), and its consolidated subsidiaries.

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

To facilitate period-to-period comparisons, certain reclassifications have been made to prior period consolidated financial statement amounts to conform to current period presentation. There was no effect on net income from this change in presentation.

On July 1, 2010, XL Capital Ltd changed its name to XL Group Ltd.

In addition, on July 1, 2010, XL-Ireland and XL-Cayman completed a redomestication transaction in which all of the ordinary shares of XL-Cayman were exchanged for all of the ordinary shares of XL-Ireland (the Redomestication). As a result, XL-Cayman became a wholly owned subsidiary of XL-Ireland. On July 23, 2010, the Irish High Court approved XL-Ireland's creation of distributable reserves, subject to the completion of certain formalities under Irish Company law. These formalities were completed in early August 2010. For further detailed information on this transaction and its impacts on shareholder rights, shareholders' equity, debt and notes outstanding and employee stock plan awards, see the Company's Report on Form 8-K filed with the U.S. Securities and Exchange Commission on July 2, 2010.

2. Significant Accounting Policies

(a) Recent Accounting Pronouncements

In June 2009, the FASB issued final authoritative guidance over accounting for transfers of financial assets that removed the concept of a qualifying special-purpose entity from existing accounting guidance over transfers of financial assets and also removes the exception from applying guidance surrounding consolidation of variable interest entities to qualifying special-purpose entities. This new guidance was applied by the Company from January 1, 2010; however, it did not have an impact on the Company's financial condition or results of operations.

In June 2009, the FASB issued final authoritative accounting guidance in an effort to improve financial reporting by enterprises involved with variable interest entities. This guidance retains the scope of the previous standard covering variable interest entities except, as noted above, with the addition of entities previously considered qualifying special-purpose entities. The new guidance requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity under revised guidance that are more qualitative than under previous guidance and amends previous guidance to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. Before this update, previous guidance required reconsideration of whether an enterprise is the primary beneficiary of a variable interest entity only when specific events occurred. The new guidance also amends previous guidance to require enhanced disclosures that provide users of financial statements with more transparent information about an enterprise's involvement with a variable interest entity. The enhanced disclosures are required for any enterprise that holds a variable interest in a variable interest entity. The content of the enhanced disclosures required by this new guidance is generally consistent with that required by the previous standards. The Company applied this new guidance from January 1, 2010; however, it did not have an impact on the Company's financial condition and results of operations. See Note 10, Variable Interest Entities, for the disclosures required by this guidance.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Significant Accounting Policies (Continued)**(a) Recent Accounting Pronouncements (Continued)**

In January 2010, the FASB issued an accounting standards update on Improving Disclosures about Fair Value Measurements. The provisions of this authoritative guidance require new disclosures about recurring and nonrecurring fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. This guidance was effective for the Company from January 1, 2010, except for the Level 3 reconciliation disclosures which are effective for annual periods beginning after December 15, 2010. This standard affects disclosures only and accordingly did not have an impact on the Company's financial condition or results of operations.

In March 2010, the FASB issued authoritative guidance relating to derivative accounting. Under this guidance, all entities that enter into contracts containing an embedded credit derivative feature related to the transfer of credit risk that is not solely in the form of subordination of one financial instrument to another are required to separately account for the embedded credit derivative feature. This guidance has been applied effective July 1, 2010. The Company has investments in senior tranches of Synthetic collateralized debt obligations (CDOs) as well as certain CDO Squared structures which in turn hold Synthetic CDOs. The derivative instruments held within these structures require the application of this new guidance. Upon initial adoption of this guidance the Company elected the fair value option for impacted securities, which resulted in a decrease being recorded to opening retained earnings of \$31.9 million. For further information on these securities see Note 5, *Investments* , herein.

In July 2010, the FASB amended the general accounting principles for receivables as they relate to the disclosures about the credit quality of financing receivables and the allowance for credit losses. This amendment requires additional disclosures that provide a greater level of disaggregated information about the credit quality of financing receivables and the allowance for credit losses. It also requires the disclosure of credit quality indicators, past due information, and modifications of financing receivables. The new disclosures are required for interim and annual periods ending after December 15, 2010, although the disclosures of reporting period activity (i.e., allowance roll-forward and modification disclosures) are required for interim and annual periods beginning after December 15, 2010. This standard affects disclosures only and accordingly will not have an impact on the Company's financial condition or results of operations.

In October 2010, the FASB issued authoritative guidance to address disparities in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. The amendments in the updated guidance specify that incremental direct costs of contract acquisition and certain costs related directly to the acquisition activities (i.e., underwriting, policy issuance and processing sales force contract selling, etc.) incurred in the acquisition of new or renewal contracts should be capitalized in accordance with the amendments in the updated guidance. Costs directly related to those activities include only the portion of an employee's total compensation (excluding any compensation that is capitalized as incremental direct costs of contract acquisition) and payroll-related fringe benefits related directly to time spent performing those activities for actual acquired contracts, and other costs related directly to those activities that would not have been incurred if the contract had not been acquired. Administrative costs, rent, depreciation, occupancy, equipment and all other general overhead costs are considered indirect costs and should be charged to expense as incurred. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The amendments in this guidance should be applied prospectively upon adoption. Retrospective application is also permitted. Early adoption is permitted as of the beginning of the fiscal year. The Company is in the process of evaluating the impact of this guidance; however, it is not expected to have a significant impact on the Company's financial condition or results of operations.

3. Fair Value Measurements

Fair value is defined as the exchange price that would be received for 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.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Fair Value Measurements (Continued)

The following tables set forth the Company's assets and liabilities that were accounted for at fair value at September 30, 2010 and December 31, 2009 by level within the fair value hierarchy (for further information, see Item 8, Note 2 to the Consolidated Financial Statements, Significant Accounting Policies, in the Company's Annual Report on Form 10-K for the year ended December 31, 2009):

September 30, 2010 <i>(U.S. dollars in thousands)</i> <i>(Unaudited)</i>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Collateral and Counterparty Netting	Balance at September 30, 2010
Assets					
U.S. Government and Government-Related/Supported Corporate (1)	\$	\$ 2,316,868	\$	\$	\$ 2,316,868
Residential mortgage-backed securities Agency		10,217,558	10,795		10,228,353
Residential mortgage-backed securities Non-Agency		5,563,328	7,999		5,571,327
Commercial mortgage-backed securities		1,154,564	5,058		1,159,622
Collateralized debt obligations		1,230,742	430		1,231,172
Other asset-backed securities		41,941	691,254		733,195
U.S. States and political subdivisions of the States		943,193	31,362		974,555
Non-U.S. Sovereign Government, Supranational and Government-Related		1,281,110			1,281,110
		2,508,487	3,489		2,511,976
Total fixed maturities, at fair value	\$	\$ 25,257,791	\$ 750,387	\$	\$ 26,008,178
Equity securities, at fair value	10,115	11,432			21,547
Short-term investments, at fair value (2)		1,800,911	1,169		1,802,080
Total investments available for sale	\$ 10,115	\$ 27,070,134	\$ 751,556	\$	\$ 27,831,805
Cash equivalents (3)	2,016,240	629,853			2,646,093
Other investments (4)		444,276	82,560		526,836
Other assets (5)(6)		142,987	285,850	(392,308)	36,529
Total assets accounted for at fair value	\$ 2,026,355	\$ 28,287,250	\$ 1,119,966	\$ (392,308)	\$ 31,041,263
Liabilities					
Financial instruments sold, but not yet purchased (7)	\$	\$ 29,674	\$	\$	\$ 29,674
Other liabilities (5)(6)		84,487	91,888	(57,069)	119,306
Total liabilities accounted for at fair value	\$	\$ 114,161	\$ 91,888	\$ (57,069)	\$ 148,980

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Fair Value Measurements (Continued)

December 31, 2009 <i>(U.S. dollars in thousands)</i>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Collateral and Counterparty Netting	Balance at December 31, 2009
Assets					
U.S. Government and Government-Related/Supported Corporate (1)	\$	\$ 2,664,625	\$	\$	\$ 2,664,625
Residential mortgage-backed securities Agency		9,788,689	10,311		9,799,000
Residential mortgage-backed securities Non-Agency		6,220,607	7,894		6,228,501
Commercial mortgage-backed securities		1,379,125	42,190		1,421,315
Collateralized debt obligations		1,214,044	2,755		1,216,799
Other asset-backed securities		507,898	190,663		698,561
U.S. States and political subdivisions of the States		1,129,806	38,179		1,167,985
Non-U.S. Sovereign Government, Supranational and Government-Related		913,473			913,473
		3,398,556	3,217		3,401,773
Total fixed maturities, at fair value	\$	\$ 27,216,823	\$ 295,209	\$	\$ 27,512,032
Equity securities, at fair value	5,621	12,158			17,779
Short-term investments, at fair value (2)		1,770,874	6,486		1,777,360
Total investments available for sale	\$ 5,621	\$ 28,999,855	\$ 301,695	\$	\$ 29,307,171
Cash equivalents (3)	1,496,938	1,136,268			2,633,206
Other investments (4)		342,005	75,584		417,589
Other assets (5)(6)		117,401	185,455	(218,409)	84,447
Total assets accounted for at fair value	\$ 1,502,559	\$ 30,595,529	\$ 562,734	\$ (218,409)	\$ 32,442,413
Liabilities					
Financial instruments sold, but not yet purchased (7)	\$	\$ 36,979	\$	\$	\$ 36,979
Other liabilities (5)(6)		24,337	84,940	(49,319)	59,958
Total liabilities accounted for at fair value	\$	\$ 61,316	\$ 84,940	\$ (49,319)	\$ 96,937

Notes:

(1)

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Included within Corporate are certain floating rate medium term notes supported primarily by pools of European credit with varying degrees of leverage. The notes had a fair value of \$457.4 million and \$587.7 million and an amortized cost of \$510.8 million and \$707.9 million at September 30, 2010 and December 31, 2009, 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, U.S. Government and Government-Related/Supported securities and Non-U.S. Sovereign Government, Supranational and Government-Related securities.
- (3) Cash equivalents balances subject to fair value measurement include certificates of deposit and money market funds. Operating cash balances are not subject to fair value measurement guidance.
- (4) The Other investments balance excludes certain structured transactions including certain investments in project finance transactions, a payment obligation and liquidity financing provided to a structured credit vehicle as a part of a third party medium term note facility. These investments are carried at amortized cost that totaled \$351.6 million at September 30, 2010 and \$365.6 million at December 31, 2009.
- (5) Other assets and other liabilities include derivative instruments.
- (6) The derivative balances included in each category above are reported on a gross basis by level with a netting adjustment presented separately in the Collateral and Counterparty Netting column. The Company often enters into different types of derivative contracts with a single counterparty and these contracts are covered under a netting agreement. In addition, the Company held net cash collateral related to derivative assets of approximately \$335.2 million and \$169.1 million at September 30, 2010 and December 31, 2009, respectively. This balance is included within cash and cash equivalents and the corresponding liability to return the collateral has been offset against the derivative asset within the balance sheet as appropriate under the netting agreement. The fair value of the individual derivative contracts are reported gross in their respective levels based on the fair value hierarchy.
- (7) Financial instruments sold, but not yet purchased represent short sales and are included within Net payable for investments purchased on the balance sheet.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Fair Value Measurements (Continued)

Level 3 Gains and Losses

The tables below present additional information about assets and liabilities measured at fair value on a recurring basis and for which Level 3 inputs were utilized to determine fair value. The table reflects gains and losses for the three and nine month periods ended September 30, 2010 and September 30, 2009 for all financial assets and liabilities categorized as Level 3 at September 30, 2010 and September 30, 2009, respectively. The tables do not include gains or losses that were reported in Level 3 in prior periods for assets that were transferred out of Level 3 prior to September 30, 2010 and September 30, 2009. 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 were 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 the values were obtained from brokers where either significant inputs were utilized in determining the value 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 those provided by independent pricing services that do not contain significant unobservable inputs, and other valuations sourced from either brokers or in limited instances from internal models for certain assets, which are considered Level 3.

There were no transfers between Level 1 and Level 2 during the three and nine month periods ending September 30, 2010 and 2009.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Fair Value Measurements (Continued)

Level 3 Gains and Losses (continued)

(U.S. dollars in thousands) (Unaudited)	Level 3 Assets and Liabilities Three Months Ended September 30, 2010				
	Corporate	Residential Mortgage-backed Securities Agency	Residential Mortgage-backed Securities Non Agency	Commercial Mortgage-backed Securities	Collateralized Debt Obligations
Balance, beginning of period	\$ 39,676	\$ 1,226	\$ 10,008	\$ 427	\$ 686,767
Realized gains (losses)		(6)	(385)		(5,083)
Movement in unrealized gains (losses)	259	39	(41)	3	46,810
Purchases, (sales), issuances and (settlements), net	1,622	6,740	(6)		(8,589)
Transfers into Level 3					
Transfers out of Level 3	(30,762)		(4,518)		(28,651)
Fixed maturities to short-term investments classification change					
Balance, end of period	\$ 10,795	\$ 7,999	\$ 5,058	\$ 430	\$ 691,254
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 259	\$ 40	\$ (37)	\$ 3	\$ 46,679

(U.S. dollars in thousands) (Unaudited)	Level 3 Assets and Liabilities Three Months Ended September 30, 2010 (Continued)				
	Other Asset Backed Securities	Non-U.S. Sovereign Government and Supranationals and Government Related	Short-term Investments	Other Investments	Derivative Contracts - Net
Balance, beginning of period	\$ 22,521	\$ 3,182	\$ 5,081	\$ 92,857	\$ 162,911
Realized gains (losses)	(7,515)		(440)	1,294	
Movement in unrealized gains (losses)	5,643	307	268	234	32,567
Purchases, (sales), issuances and (settlements), net	10,714		(3,740)	(11,825)	(1,516)
Transfers into Level 3					
Transfers out of Level 3	(1)				
Fixed maturities to short-term investments classification change					
Balance, end of period	\$ 31,362	\$ 3,489	\$ 1,169	\$ 82,560	\$ 193,962
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ (2,006)	\$ 307	\$ 85	\$ 234	\$ 32,567

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Fair Value Measurements (Continued)

Level 3 Gains and Losses (continued)

(U.S. dollars in thousands) (Unaudited)	Level 3 Assets and Liabilities Nine months Ended September 30, 2010				
	Corporate	Residential Mortgage-backed Securities Agency	Residential Mortgage-backed Securities Non Agency	Commercial Mortgage-backed Securities	Collateralized Debt Obligations
Balance, beginning of period	\$ 10,311	\$ 7,894	\$ 42,190	\$ 2,755	\$ 190,663
Realized gains (losses)	(4,315)		(46)	(209)	(14,191)
Movement in unrealized gains (losses)	347	39	104	29	74,233
Purchases, (sales), issuances and (settlements), net	1,265	7,949	(2,294)	(707)	(11,248)
Transfers into Level 3	7,128		4,044		475,128
Transfers out of Level 3	(3,941)	(7,883)	(38,940)	(1,438)	(23,331)
Fixed maturities to short-term investments classification change					
Balance, end of period	\$ 10,795	\$ 7,999	\$ 5,058	\$ 430	\$ 691,254
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 530	\$ 39	\$ (56)	\$ (136)	\$ 72,281

(U.S. dollars in thousands) (Unaudited)	Level 3 Assets and Liabilities Nine months Ended September 30, 2010 (Continued)				
	Other Asset Backed Securities	Non-U.S. Sovereign Government and Supranationals and Government Related	Short-term Investments	Other Investments	Derivative Contracts - Net
Balance, beginning of period	\$ 38,179	\$ 3,217	\$ 6,486	\$ 75,584	\$ 100,515
Realized gains (losses)	(19,018)		(3,307)	3,860	
Movement in unrealized gains (losses)	14,757	32	2,468	5,785	84,202
Purchases, (sales), issuances and (settlements), net	11,474		(5,885)	(2,669)	9,245
Transfers into Level 3	204	240	1,407		
Transfers out of Level 3	(14,234)				
Fixed maturities to short-term investments classification change					
Balance, end of period	\$ 31,362	\$ 3,489	\$ 1,169	\$ 82,560	\$ 193,962
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 7,642	\$ 32	\$ 4	\$ 5,785	\$ 84,202

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Fair Value Measurements (Continued)

Level 3 Gains and Losses (continued)

	Level 3 Assets and Liabilities Three Months Ended September 30, 2009				
	Corporate	Residential Mortgage-backed Securities Agency	Commercial Mortgage-Backed Securities	Collateralized Debt Obligations	Other Asset Backed Securities
<i>(U.S. dollars in thousands)</i> <i>(Unaudited)</i>					
Balance, beginning of period	\$ 21,462	\$ 26,964	\$ 33,289	\$ 503,168	\$ 35,315
Realized gains (losses)	10	(1,486)		(2,677)	(5,188)
Movement in unrealized gains (losses)	2,060	8,485	74	40,172	5,930
Purchases, (sales), issuances and (settlements), net	4,734	(814)		(2,369)	
Transfers into Level 3		2,464		10,017	
Transfers out of Level 3	(8,371)	(1,214)	(30,690)	(358,683)	(211)
Fixed maturities to short-term investments classification change				(3,933)	
Balance, end of period	\$ 19,895	\$ 34,399	\$ 2,673	\$ 185,695	\$ 35,846
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 1,926	\$ 7,244	\$ 231	\$ 39,803	\$ (128)

Level 3 Assets and Liabilities
Three Months Ended September 30, 2009 (continued)

	Non-U.S. Sovereign Government	Short-term Investments	Other Investments	Derivative Contracts - Net
<i>(U.S. dollars in thousands)</i> <i>(Unaudited)</i>				
Balance, beginning of period	\$ 42,585	\$ 20,614	\$ 65,134	\$ 120,735
Realized gains (losses)		(10,193)		(16)
Movement in unrealized gains (losses)	438	978	1,452	15,529
Purchases, (sales), issuances and (settlements), net		(45)	(2,142)	2,739
Transfers into Level 3				
Transfers out of Level 3	(34,522)	(3,341)		
Fixed maturities to short-term investments classification change		3,933		
Balance, end of period	\$ 8,501	\$ 11,946	\$ 64,444	\$ 138,987
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 152	\$ 480	\$ 1,452	\$ 15,529

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Fair Value Measurements (Continued)

Level 3 Gains and Losses (continued)

(U.S. dollars in thousands) (Unaudited)	Level 3 Assets and Liabilities Nine months Ended September 30, 2009				
	Corporate	Residential Mortgage-backed Securities Agency	Commercial Mortgage-Backed Securities	Collateralized Debt Obligations	Other Asset Backed Securities
Balance, beginning of period	\$ 62,506	\$ 79,429	\$ 43,811	\$ 598,110	\$ 78,871
Realized gains (losses)	(1,574)	(5,189)	(7,292)	(31,991)	(8,245)
Movement in unrealized gains (losses)	4,946	5,717	1,455	26,289	(35)
Purchases, (sales), issuances and (settlements), net	5,217	1,277	(3,345)	(8,885)	(2,831)
Transfers into Level 3	1,290	4,017	1,470	11,810	
Transfers out of Level 3	(52,490)	(50,852)	(33,426)	(405,705)	(31,914)
Fixed maturities to short-term investments classification change				(3,933)	
Balance, end of period	\$ 19,895	\$ 34,399	\$ 2,673	\$ 185,695	\$ 35,846
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 4,872	\$ 4,998	\$ (356)	\$ 7,149	\$ (6,926)

(U.S. dollars in thousands) (Unaudited)	Level 3 Assets and Liabilities Nine months Ended September 30, 2009 (continued)			
	Non-U.S. Sovereign Government	Short-term Investments	Other Investments	Derivative Contracts - Net
Balance, beginning of period	\$ 89,152	\$ 20,746	\$ 65,354	\$ 226,818
Realized gains (losses)		(11,343)		2,807
Movement in unrealized gains (losses)	(309)	4,467	(4,446)	(103,275)
Purchases, (sales), issuances and (settlements), net	(12,985)	(5,589)	3,536	12,637
Transfers into Level 3				
Transfers out of Level 3	(67,357)	(268)		
Fixed maturities to short-term investments classification change		3,933		
Balance, end of period	\$ 8,501	\$ 11,946	\$ 64,444	\$ 138,987
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ (143)	\$ 1,954	\$ (4,446)	\$ (103,275)

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Fair Value Measurements (Continued)

Fixed maturities and short-term investments

During the nine months ended September 30, 2010, certain CDOs that were previously classified as Level 2 due to sufficient market data being available to allow a price to be determined and provided by third party pricing vendors, were transferred to Level 3 because third party vendor prices were no longer believed to be the most appropriate pricing source. Broker quotes, for which sufficient information regarding the specific inputs utilized by the broker was not available to support a Level 2 classification, are the primary source of the valuations for these CDO securities.

In addition, at each of September 30, 2010 and 2009, certain fixed maturity securities that were previously classified as Level 3, due to a lack of available third party vendor pricing, were transferred to Level 2 as prices for these securities were provided by third party pricing vendors.

The remainder of the Level 3 assets relate to private equity investments where the nature of the underlying assets held by the investee include positions such as private business ventures that require the use of significant Level 3 inputs in the valuation.

Other investments

Included within the Other investments component of the Company's Level 3 valuations are private investments and alternatives 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 that require the use of significant Level 3 inputs 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 also incorporates factors such as the most recent financial information received, the values at which capital transactions with the investee take place, and management's judgment regarding whether any adjustments should be made to the net asset value in recording the fair value of each position. Investments in private equity and 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 11, Other Investments, to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Derivative instruments

Derivative instruments classified within Level 3 include: (i) certain interest rate swaps where the duration of the contract the Company holds exceeds that of the longest term on a market observable input, (ii) guaranteed minimum income benefits (GMIB) embedded within a certain reinsurance contract, (iii) a put option included within the Company's remaining contingent capital facility and (iv) credit derivatives sold providing protection on senior tranches of structured finance transactions where the value is obtained directly from the investment bank counterparty for which sufficient information regarding the inputs utilized in the valuation was not obtained to support a Level 2 classification. 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.

In addition, see Item 8, Note 2 to the Consolidated Financial Statements, Significant Accounting Policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 for a general discussion of types of assets and liabilities that are classified within Level 3 of the fair value hierarchy as well as the Company's valuation policies for such instruments.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Fair Value Measurements (Continued)

Financial Instruments Not Carried at Fair Value

Authoritative guidance over disclosures about 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:

<i>(U.S. dollars in thousands)</i> <i>(Unaudited)</i>	September 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed maturities, held to maturity	\$ 2,761,380	\$ 2,937,835	\$ 546,067	\$ 530,319
Other investments structured transactions	\$ 351,622	\$ 333,905	\$ 365,600	\$ 341,352
Financial Assets	\$ 3,113,002	\$ 3,271,740	\$ 911,667	\$ 871,671
Deposit liabilities	\$ 1,771,489	\$ 1,901,208	\$ 2,208,699	\$ 2,245,961
Notes payable and debt	2,465,901	2,680,053	2,451,417	2,504,386
Financial Liabilities	\$ 4,237,390	\$ 4,581,261	\$ 4,660,116	\$ 4,750,347
Redeemable series C preference ordinary shares	\$ 71,900	\$ 57,520	\$ 182,673	\$ 137,918

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

Deposit liabilities include obligations under structured insurance and reinsurance transactions. For purposes of fair value disclosures, the Company determines the estimated fair value of the deposit liabilities by assuming a discount rate equal to the appropriate U.S. Treasury rate plus 153.6 basis points and the appropriate U.S. Treasury Rate plus 108.3 basis points at September 30, 2010 and December 31, 2009, 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 are determined based on quoted market prices.

The fair value of the Company's redeemable Series C preference ordinary shares outstanding is determined based on indicative quotes provided by brokers.

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.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Segment Information

Following a streamlining of the Company's operating segments in the first quarter of 2009, the Company is organized into three operating segments: Insurance, Reinsurance and Life operations. The Company's general investment and financing operations are reflected in Corporate.

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

Three months ended September 30, 2010:

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

(Unaudited)

	Insurance	Reinsurance	Total P&C	Life Operations	Corporate	Total
Gross premiums written	\$ 991,781	\$ 533,730	\$ 1,525,511	\$ 103,957	\$	\$ 1,629,468
Net premiums written	776,869	389,203	1,166,072	96,444		1,262,516
Net premiums earned	872,148	396,593	1,268,741	96,586		1,365,327
Net losses and loss expenses	(640,999)	(170,981)	(811,980)	(144,358)		(956,338)
Acquisition costs	(109,788)	(82,271)	(192,059)	(6,114)		(198,173)
Operating expenses (1)	(155,816)	(44,220)	(200,036)	(2,372)		(202,408)
Underwriting profit (loss)	\$ (34,455)	\$ 99,121	\$ 64,666	\$ (56,258)	\$	\$ 8,408
Net investment income			201,029	78,387		279,416
Net results from structured products (2)	3,015	(9,829)	(6,814)		1,566	(5,248)
Net fee income and other (3)	(3,713)	1,017	(2,696)	54		(2,642)
Net realized gains (losses) on investments			(69,770)	(1,512)	2,527	(68,755)
Contribution from P&C, Life Operations and Corporate			\$ 186,415	\$ 20,671	\$ 4,093	\$ 211,179
Corporate & other:						
Net realized & unrealized gains (losses) on derivative instruments					\$ 12,473	\$ 12,473
Net income (loss) from investment fund affiliates and operating affiliates					17,140	17,140
Exchange gains (losses)					(44,540)	(44,540)
Corporate operating expenses					(19,782)	(19,782)
Interest expense (4)					(36,146)	(36,146)
Non-controlling interest in net (income) loss of subsidiary					(6)	(6)
Loss on termination of guarantee						
Income taxes & other					(30,275)	(30,275)
Net income attributable to XL Group plc						\$ 110,043
Ratios P&C operations: (5)						
Loss and loss expense ratio	73.5%	43.1%	64.0%			
Underwriting expense ratio	30.5%	31.9%	30.9%			
Combined ratio	104.0%	75.0%	94.9%			

Notes:

- (1) Operating expenses exclude Corporate operating expenses, shown separately.
- (2) The net results from P&C and Corporate structured products include net investment income, interest expense and operating expenses of \$15.3 million, \$22.1 million and nil and \$2.0 million, \$0.3 million and \$0.1 million, respectively.
- (3) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business and expenses related to the cost of an endorsement facility with National Indemnity Company.
- (4) Interest expense excludes interest expense related to deposit liabilities recorded in the Insurance and Reinsurance segments and Corporate.
- (5) Ratios are based on net premiums earned from P&C operations.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Segment Information (Continued)

Three months ended September 30, 2009:

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

(Unaudited)

	Insurance	Reinsurance	Total P&C	Life Operations	Corporate (6)	Total
Gross premiums written	\$ 1,022,178	\$ 562,031	\$ 1,584,209	\$ 156,870	\$	\$ 1,741,079
Net premiums written	818,244	376,875	1,195,119	146,941		1,342,060
Net premiums earned	905,350	388,529	1,293,879	151,840		1,445,719
Net losses and loss expenses	(630,324)	(187,914)	(818,238)	(185,067)		(1,003,305)
Acquisition costs	(107,008)	(81,971)	(188,979)	(23,867)		(212,846)
Operating expenses (1)	(155,645)	(42,738)	(198,383)	(5,903)		(204,286)
Underwriting profit (loss)	\$ 12,373	\$ 75,906	\$ 88,279	\$ (62,997)	\$	\$ 25,282
Net investment income			211,781	88,788		300,569
Net results from structured products (2)	3,852	7,729	11,581		3,694	15,275
Net fee income and other (3)	(5,894)	578	(5,316)	62		(5,254)
Net realized gains (losses) on investments			(309,601)	(5,393)	(10,526)	(325,520)
Contribution from P&C, Life Operations and Corporate			\$ (3,276)	\$ 20,460	\$ (6,832)	\$ 10,352
Corporate & other:						
Net realized & unrealized gains (losses) on derivative instruments					\$ (9,133)	\$ (9,133)
Net income (loss) from investment fund affiliates and operating affiliates					65,315	65,315
Exchange gains (losses)					16,843	16,843
Corporate operating expenses					(14,955)	(14,955)
Interest expense (4)					(43,250)	(43,250)
Non-controlling interest in net (income) loss of subsidiary					7	7
Income taxes & other					(4,081)	\$ (4,081)
Net income attributable to XL Group plc						\$ 21,098

Ratios P&C operations: (5)

Loss and loss expense ratio	69.6%	48.4%	63.2%
Underwriting expense ratio	29.0%	32.1%	30.0%
Combined ratio	98.6%	80.5%	93.2%

Notes:

- Operating expenses exclude Corporate operating expenses, shown separately.
- The net results from P&C and Corporate structured products include net investment income, interest expense and operating expenses of \$21.1 million, \$8.7 million and \$0.8 million and \$5.4 million, \$1.5 million and \$0.3 million, respectively.
- Net fee income and other includes operating expenses from the Company's loss prevention consulting services business and expenses related to the cost of an endorsement facility with National Indemnity Company.

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

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XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Segment Information (Continued)

Nine months ended September 30, 2010:

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

(Unaudited)

	Insurance	Reinsurance	Total P&C	Life Operations	Corporate (6)	Total
Gross premiums written	\$ 3,209,411	\$ 1,745,493	\$ 4,954,904	\$ 309,696	\$	\$ 5,264,600
Net premiums written	2,435,557	1,441,644	3,877,201	287,204		4,164,405
Net premiums earned	2,637,825	1,110,830	3,748,655	287,918		4,036,573
Net losses and loss expenses	(1,881,502)	(569,843)	(2,451,345)	(391,476)		(2,842,821)
Acquisition costs	(312,166)	(230,448)	(542,614)	(37,256)		(579,870)
Operating expenses (1)	(472,057)	(129,910)	(601,967)	(8,145)		(610,112)
Underwriting profit (loss)	\$ (27,900)	\$ 180,629	\$ 152,729	\$ (148,959)	\$	\$ 3,770
Net investment income			610,289	234,120		844,409
Net results from structured products (2)	11,594	(1,577)	10,017		8,305	18,322
Net fee income and other (3)	(11,836)	1,911	(9,925)	208		(9,717)
Net realized gains (losses) on investments			(154,223)	(11,370)	(724)	(166,317)
Contribution from P&C, Life Operations and Corporate			\$ 608,887	\$ 73,999	\$ 7,581	\$ 690,467
Corporate & other:						
Net realized & unrealized gains (losses) on derivative instruments					\$ (27,903)	\$ (27,903)
Net income (loss) from investment fund affiliates and opera						