

XL GROUP LTD
Form 10-Q
May 04, 2018
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 March 31, 2018

OR

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

For the transition period from _____ to _____

Commission file number 1-10804

XL GROUP LTD

(Exact name of registrant as specified in its charter)

Bermuda

98-1304974

(State or other jurisdiction of
incorporation or organization) (I.R.S. Employer Identification No.)

O'Hara House, One Bermudiana Road, Hamilton HM 08, Bermuda

(Address of principal executive offices and zip code)

(441) 292-8515

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
☒	☐	☐	☐	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

At May 1, 2018, there were 258,287,127 outstanding Common Shares, \$0.01 par value per share, of the registrant.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

XL GROUP LTD

UNAUDITED CONSOLIDATED BALANCE SHEETS

(U.S. dollars in thousands, except share data)	March 31, 2018	December 31, 2017
ASSETS		
Investments:		
Fixed maturities available for sale ("AFS"), at fair value (amortized cost: 2018 - \$30,268,346; 2017 - \$30,157,581)	\$30,656,628	\$30,928,988
Short-term investments AFS, at fair value (amortized cost: 2018 - \$500,844; 2017 - \$816,638)	500,170	815,481
Fixed maturities trading, at fair value (amortized cost: 2018 - \$2,055,722; 2017 - \$1,946,501)	2,084,251	2,006,385
Short-term investments trading, at fair value (amortized cost: 2018 - \$7,428; 2017 - \$14,969)	7,425	14,965
Equity securities, at fair value (cost: 2018 - \$607,427; 2017 - \$638,455)	637,872	713,967
Investments in affiliates	1,900,105	1,911,996
Other investments	1,186,983	1,163,863
Total investments	\$36,973,434	\$37,555,645
Cash and cash equivalents	3,484,763	3,435,954
Restricted cash	155,023	157,497
Accrued investment income	265,701	272,149
Deferred acquisition costs and value of business acquired	1,317,797	1,102,474
Ceded unearned premiums	2,950,077	2,198,217
Premiums receivable	7,988,469	6,934,482
Reinsurance balances receivable	1,210,620	930,114
Unpaid losses and loss expenses recoverable	7,271,013	7,247,723
Receivable from investments sold	258,084	201,515
Goodwill and other intangible assets	2,230,506	2,225,751
Deferred tax asset	356,667	332,024
Other assets	875,809	842,691
Total assets	\$65,337,963	\$63,436,236
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss expenses	\$29,701,568	\$29,696,779
Deposit liabilities	982,963	1,042,677
Future policy benefit reserves	3,680,958	3,610,926
Funds withheld on GreyCastle life retrocession arrangements (net of future policy benefit reserves recoverable: 2018 - \$3,261,122; 2017 - \$3,191,584)	989,140	999,219
Unearned premiums	9,687,293	8,307,431
Notes payable and debt	3,240,461	3,220,769
Reinsurance balances payable	4,432,331	3,706,116
Payable for investments purchased	317,339	332,989
Deferred tax liability	57,995	57,574
Other liabilities	1,012,693	1,000,436
Total liabilities	\$54,102,741	\$51,974,916

Commitments and Contingencies

Shareholders' Equity:

Authorized shares, 999,990,000, par value \$0.01; common shares issued and outstanding (2018 - 258,171,836; 2017 - 256,033,895)	\$2,582	\$2,560
Additional paid in capital	7,809,895	7,757,940
Accumulated other comprehensive income	312,255	889,431
Retained earnings	1,503,797	1,198,386
Shareholders' equity attributable to XL Group Ltd	\$9,628,529	\$9,848,317
Non-controlling interest in equity of consolidated subsidiaries	1,606,693	1,613,003
Total shareholders' equity	\$11,235,222	\$11,461,320
Total liabilities and shareholders' equity	\$65,337,963	\$63,436,236
See accompanying Notes to Unaudited Consolidated Financial Statements		

XL GROUP LTD
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended March 31,	
(U.S. dollars in thousands, except per share data)	2018	2017
Revenues:		
Net premiums earned	\$2,600,288	\$2,522,791
Net investment income:		
Net investment income - excluding Life Funds Withheld Assets	188,083	167,168
Net investment income - Life Funds Withheld Assets	30,398	33,364
Total net investment income	\$218,481	\$200,532
Realized investment gains (losses):		
Net realized gains (losses) on investments AFS - excluding Life Funds Withheld Assets	(31,672	) 11,092
Net realized and change in net unrealized gains (losses) on equity securities - excluding Life Funds Withheld Assets	(36,014	) —
Net realized and change in net unrealized gains (losses) on other investments - excluding Life Funds Withheld Assets	8,649	—
Other-than-temporary impairments ("OTTI") - excluding Life Funds Withheld Assets	(1,645	) (6,874)
OTTI transferred to (from) other comprehensive income - excluding Life Funds Withheld Assets	(161	) —
Net realized gains (losses) on investments and change in net unrealized gains (losses) on investments, trading - Life Funds Withheld Assets	(21,309	) 33,068
OTTI - Life Funds Withheld Assets	(1,203	) —
Total realized investment gains (losses)	\$(83,355	) \$37,286
Net realized and unrealized gains (losses) on derivative instruments	4,221	(7,069)
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	22,921	(50,101)
Income (loss) from investment affiliates	45,669	38,261
Fee income and other	6,717	13,661
Total revenues	\$2,814,942	\$2,755,361
Expenses:		
Net losses and loss expenses incurred	\$1,622,006	\$1,583,456
Claims and policy benefits	10,307	7,291
Acquisition costs	463,827	435,869
Operating expenses	472,563	468,038
Foreign exchange (gains) losses	9,841	(3,336)
Interest expense	53,545	50,711
Total expenses	\$2,632,089	\$2,542,029
Income (loss) before income tax and income (loss) from operating affiliates	\$182,853	\$213,332
Income (loss) from operating affiliates	10,282	13,609
Provision (benefit) for income tax	31,902	13,092
Net income (loss)	\$161,233	\$213,849
Non-controlling interests	8,585	61,006
Net income (loss) attributable to common shareholders	\$152,648	\$152,843
Weighted average common shares and common share equivalents outstanding, in thousands – basic	256,922	265,690
Weighted average common shares and common share equivalents outstanding, in thousands – diluted	261,176	269,767
Earnings (loss) per common share and common share equivalent – basic	\$0.59	\$0.58
Earnings (loss) per common share and common share equivalent – diluted	\$0.58	\$0.57

See accompanying Notes to Unaudited Consolidated Financial Statements

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XL GROUP LTD

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31,	
(U.S. dollars in thousands)	2018	2017
Net income (loss) attributable to common shareholders	\$ 152,648	\$ 152,843
Change in net unrealized gains (losses) on investments AFS - excluding Life Funds Withheld Assets, net of tax	(330,728)	102,622
Change in adjustments related to future policy benefit reserves, net of tax	4,164	5,132
Change in net unrealized gains (losses) on investments AFS - Life Funds Withheld Assets, net of tax	(35,754)	(20,108)
Change in net unrealized gains (losses) on affiliate investments, net of tax	2,148	(2,462)
Change in net unrealized gains (losses) on other investments, net of tax	—	1,269
Change in OTTI recognized in other comprehensive income, net of tax	3,616	1,442
Change in underfunded pension liability, net of tax	(189)	(357)
Change in value of cash flow hedge	(48)	(48)
Foreign currency translation adjustments, net of tax	(2,432)	41,938
Comprehensive income (loss)	\$(206,575)	\$ 282,271
See accompanying Notes to Unaudited Consolidated Financial Statements		

XL GROUP LTD

UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Three Months Ended March 31,	
(U.S. dollars in thousands)	2018	2017
Common Shares:		
Balance - beginning of year	\$2,560	\$2,669
Issuance of common shares	7	10
Buybacks of common shares	—	(51)
Exercise of stock options	15	9
Balance - end of period	\$2,582	\$2,637
Additional Paid in Capital:		
Balance - beginning of year	\$7,757,940	\$8,068,503
Buybacks of common shares	(1,191)	(154,065)
Exercise of stock options	48,163	23,287
Share-based compensation and other	4,983	(3,564)
Balance - end of period	\$7,809,895	\$7,934,161
Accumulated Other Comprehensive Income (Loss):		
Balance - beginning of year	\$889,431	\$715,546
Reclassification due to the adoption of Accounting Standards Update ("ASU") 2016-01	(221,856)	—
Reclassification due to the adoption of ASU 2018-02	3,903	—
Change in net unrealized gains (losses) on investments AFS - excluding Life Funds Withheld Assets, net of tax	(330,728)	102,622
Change in adjustments related to future policy benefit reserves, net of tax	4,164	5,132
Change in net unrealized gains (losses) on investments AFS - Life Funds Withheld Assets, net of tax	(35,754)	(20,108)
Change in net unrealized gains (losses) on affiliate investments, net of tax	2,148	(2,462)
Change in net unrealized gains (losses) on other investments, net of tax	—	1,269
Change in OTTI losses recognized in other comprehensive income, net of tax	3,616	1,442
Change in underfunded pension liability, net of tax	(189)	(357)
Change in value of cash flow hedge	(48)	(48)
Foreign currency translation adjustments, net of tax	(2,432)	41,938
Balance - end of period	\$312,255	\$844,974
Retained Earnings (Deficit):		
Balance - beginning of year	\$1,198,386	\$2,151,794
Reclassification due to the adoption of ASU 2016-01	221,856	—
Reclassification due to the adoption of ASU 2018-02	(3,903)	—
Net income (loss) attributable to common shareholders	152,648	152,843
Dividends on common shares	(57,644)	(59,371)
Buybacks of common shares	(471)	(46,372)
Share-based compensation and other	(7,075)	(5,782)
Balance - end of period	\$1,503,797	\$2,193,112
Non-controlling Interest in Equity of Consolidated Subsidiaries:		
Balance - beginning of year	\$1,613,003	\$2,022,167
Non-controlling interests - contributions	438	25
Non-controlling interests - other	(7,361)	3,036
Non-controlling interest share in change in accumulated other comprehensive income (loss)	613	514
Balance - end of period	\$1,606,693	\$2,025,742

Total Shareholders' Equity	\$ 11,235,222	\$ 13,000,626
See accompanying Notes to Unaudited Consolidated Financial Statements		

XL GROUP LTD
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
(U.S. dollars in thousands)	2018	2017
Cash flows provided by (used in) operating activities:		
Net income (loss)	\$161,233	\$213,849
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Total realized investment (gains) losses	83,355	(37,286)
Net realized and unrealized (gains) losses on derivative instruments	(4,221)	7,069
Net realized and unrealized (gains) losses on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	(22,921)	50,101
Amortization of premiums (discounts) on fixed maturities	32,298	42,178
(Income) loss from investment and operating affiliates	(39,800)	(28,921)
Share-based compensation	15,448	12,694
Depreciation and amortization	22,481	19,429
Accretion of deposit liabilities	11,125	11,430
Changes in:		
Unpaid losses and loss expenses	(240,207)	290,788
Future policy benefit reserves	(51,981)	(55,634)
Funds withheld on GreyCastle life retrocession arrangements, net	(24,578)	(107,596)
Unearned premiums	1,310,888	1,222,570
Premiums receivable	(979,464)	(1,152,760)
Unpaid losses and loss expenses recoverable	36,804	(153,063)
Ceded unearned premiums	(730,516)	(797,191)
Reinsurance balances receivable	(272,531)	(59,052)
Deferred acquisition costs and value of business acquired	(205,798)	(205,830)
Reinsurance balances payable	695,220	849,492
Deferred tax asset - net	25,190	10,852
Derivatives	8,162	58,104
Other assets	(42,006)	(100,791)
Other liabilities	(51,327)	(128,606)
Other	25,022	(9,323)
Total adjustments	\$(399,357)	\$(261,346)
Net cash provided by (used in) operating activities	\$(238,124)	\$(47,497)
Cash flows provided by (used in) investing activities:		
Proceeds from sale of fixed maturities and short-term investments	\$4,369,199	\$2,492,005
Proceeds from redemption of fixed maturities and short-term investments	701,404	1,228,356
Proceeds from sale of equity securities	78,716	46,379
Purchases of fixed maturities and short-term investments	(4,917,191)	(3,633,007)
Purchases of equity securities	(33,230)	(47,967)
Proceeds from sale of affiliates	244,340	168,237
Purchases of affiliates	(76,014)	(35,926)
Other	(26,782)	23,429
Net cash provided by (used in) investing activities	\$340,442	\$241,506
Cash flows provided by (used in) financing activities:		
Proceeds from issuance of common shares and exercise of stock options	\$46,504	\$23,296
Buybacks of common shares	(1,663)	(200,488)

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Employee withholding on share-based compensation	(16,696	) (22,871	)
Dividends paid on common shares	—	(58,392	)
Distributions to non-controlling interests	(15,946	) (25,400	)
Contributions from non-controlling interests	439	26	
Contingent consideration paid on business combination	(5,000	) —	
Deposit liabilities	(71,124	) (7,771	)
Net cash provided by (used in) financing activities	\$(63,486	) \$(291,600	)
Effects of exchange rate changes on foreign currency cash	7,503	30,273	
Increase (decrease) in cash, cash equivalents and restricted cash	\$46,335	\$(67,318	)
Cash, cash equivalents and restricted cash - beginning of year	3,593,451	3,580,492	
Cash, cash equivalents and restricted cash - end of period	\$3,639,786	\$3,513,174	
See accompanying Notes to Unaudited Consolidated Financial Statements			

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XL GROUP LTD

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

(a) Basis of Preparation and Consolidation

Unless the context otherwise indicates, references herein to the "Company" include the accounts of XL Group Ltd, a Bermuda exempted company ("XL Group"), together with its consolidated subsidiaries.

These Unaudited Consolidated Financial Statements include the accounts of the Company and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by GAAP for complete financial statements. In addition, the year-end balance sheet data was derived from audited financial statements but do not include all disclosures required by GAAP. In the opinion of management, these unaudited financial statements reflect all adjustments considered necessary for a fair statement of financial position and results of operations at the end of and for the periods presented. The results of operations for any interim period are not necessarily indicative of the results for a full year. All inter-company accounts and transactions have been eliminated. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure about contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates. For further information, see Item 8, Note 1(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, 2017.

In May 2014, the Company ceded the majority of its life reinsurance business to GreyCastle Life Reinsurance ("GCLR") via 100% quota share reinsurance (the "GreyCastle Life Retro Arrangements"). Under the terms of the transaction, the Company continues to own, on a funds withheld basis, assets supporting the GreyCastle Life Retro Arrangements consisting of cash, fixed maturity securities and accrued interest (the "Life Funds Withheld Assets"). The Life Funds Withheld Assets are managed pursuant to agreed investment guidelines that meet the contractual commitments of the XL ceding companies and applicable laws and regulations. All of the investment results associated with the Life Funds Withheld Assets ultimately accrue to GCLR. Because the Company no longer shares in the risks and rewards of the underlying performance of the supporting invested assets, disclosures within the financial statement notes included herein separate the Life Funds Withheld Assets from the rest of the Company's investments. For further information, see Item 8, Note 1(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, 2017.

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

(b) Recent Accounting Pronouncements

Recently Issued Accounting Standards Adopted in 2018

ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued an accounting standards update concerning the accounting for financial instruments. The guidance retains the basic existing framework for accounting for financial instruments under GAAP, while achieving limited convergence with IFRS in this area. The guidance: (1) requires equity investments (except consolidated entities and those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income; (2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (3) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for non-public business entities; (4) eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost on the balance sheet; (5) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (6) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a

liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial statements; (7) requires separate presentation of financial assets and financial liabilities by measurement category and form of asset in the financial statements; and (8) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to AFS securities in combination with the entity's other deferred tax assets. The guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Adoption is required to be applied by means of a cumulative effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, except the amendments related to impairment of equity securities without readily determinable fair values. The Company adopted this guidance as of

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

January 1, 2018. As of that date, accumulated unrealized gains and losses relating to investments in equity securities and certain of our other investments, net of tax, which were included in accumulated other comprehensive income, were reclassified to retained earnings. At January 1, 2018 the amount of the reclassification was a net unrealized gain of \$233.8 million, less deferred tax of \$11.9 million. Adoption of this update has an effect on results of operations going forward, as mark-to-market movements on equity securities now impact net income; however, it does not have a material impact on the Company's cash flows.

ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued an accounting standards update concerning the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. The amendments in this update are intended to address areas where GAAP is unclear and diversity in practice exists. The following areas are covered in this update: (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon debt instruments; (3) contingent consideration payments following a business combination; (4) proceeds from settlement of insurance claims; (5) proceeds from settlement of corporate-owned life insurance policies; (6) distributions received from equity method investees; (7) beneficial interests in securitization transactions; and (8) separation of cash flows. The guidance is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted this guidance as of January 1, 2018 using the retrospective transition method required by these amendments. As required in adopting this standard, the Company made a formal accounting policy election regarding classification of distributions received from equity method investees, choosing to use the Nature of Distribution approach. This approach is consistent with historical practice utilized by the Company in classifying these distributions. Overall, adoption of the guidance did not have a material impact on the Company's cash flows, and had no impact on the Company's financial position or results of operations.

ASU 2016-16, Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued an accounting standards update concerning the tax effects of intra-entity asset transfers within a group. The guidance requires an entity to reflect the income tax consequences of an intra-entity transfer of an asset other than inventory when that transfer occurs. This is a departure from previous GAAP, which prohibited recognition of tax on such transfers until the asset had been sold to an external party or otherwise realized. The amendments are effective for annual reporting periods beginning after December 15, 2017, and interim periods within those fiscal years. The amendments are required to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company adopted this guidance as of January 1, 2018. This guidance did not have a material impact on the Company's financial condition, results of operations, or cash flows.

ASU 2016-18, Statement of Cash Flows: Restricted Cash

In November 2016, the FASB issued an accounting standards update concerning the presentation of restricted cash within the statement of cash flows. Previous GAAP did not provide guidance on the presentation or classification of movements in restricted cash. The update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included as a component of cash and cash equivalents when reconciling beginning-of-period and end-of-period totals within the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The guidance is required to be applied retrospectively to all periods presented in the statements of cash flows. The Company adopted this guidance as of January 1, 2018. As result, the net amount of the change in the restricted cash balances during each reporting period is no longer being presented as a discrete line item "Change in restricted cash" within investing cash flows for each applicable period, as was previously reported in the Company's Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2017. This guidance did not have an impact on the Company's financial position or results of operations.

ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued an accounting standards update concerning the presentation of costs related to defined benefit pension plans and similar plans. The amendments in this ASU principally require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by relevant employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The amendments in the update are effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The amendments relating to presentation in the income statement are required to be applied retrospectively. Disclosures of the nature of and reason for the change in accounting principle are required in the first interim and annual periods of adoption. The Company

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

adopted this guidance as of January 1, 2018. The impact of this guidance on the Company is disclosure-related only, and it does not have an impact on the Company's financial position, results of operations or cash flows. As the impact of adopting this standard is not material, updated disclosure on the Company's defined benefit pension plans has not been provided for the current quarterly period. For the Company's most recent disclosures, see Item 8, Note 17, "Retirement Plans" to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued an accounting standards update concerning the stranded tax effects resulting from tax rate changes legislated by the U.S. Tax Cuts and Jobs Act. Under GAAP, the effects of all changes in tax rates on deferred tax balances are reflected in income, even if the tax balances relate to items of accumulated other comprehensive income. This update permits companies to make an election to reclassify from accumulated other comprehensive income to retained earnings such stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act. Certain disclosures are also required by the update. The amendments are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those financial years. For public business entities, early adoption is permitted, including adoption in any interim period for reporting periods for which financial statements have not yet been issued. The amendments should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. Tax Cuts and Jobs Act is recognized. The Company early-adopted this guidance by making the permitted election in the first quarter of 2018, recognizing a reclassification of \$3.9 million from accumulated other comprehensive income to retained earnings in the period of adoption. In general, in accounting for the release of income tax effects from accumulated other comprehensive income, the Company applies the individual item approach with respect to available-for-sale debt securities, and the portfolio approach with respect to pension, postretirement benefit plan obligations and currency translation matters.

ASU 2018-05, Income Taxes: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118

In March 2018, the FASB issued an accounting standards update concerning the income tax accounting implications of the U.S. Tax Cuts and Jobs Act. The update codifies SEC-related material within the Accounting Standards Codification pursuant to the issuance of SEC Staff Accounting Bulletin No. 118 ('SAB 118'). SAB 118 provided clarifying guidance for how a public business entity should address the situation in which the accounting for certain income tax effects of the U.S. Tax Cuts and Jobs Act was not completed by the time financial statements were issued for the reporting period in which the legislation was enacted. In such circumstances, the incomplete effects are reported when a reasonable estimate can be determined, based on that estimate. Provisional amounts can be updated during a measurement period not exceeding one year. Disclosures concerning any incomplete effects and adjustments are required. The Company complied with the requirements of SAB 118 in its Form 10-K for the year ended December 31, 2017 and no further changes were required to comply with this update when adopted in the three months ended March 31, 2018. During the three months ended March 31, 2018, there were no changes to any outstanding items as reported in Item 8, Note 23, "Taxation" to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

2. Acquisitions and Disposals

(a) Merger with AXA SA ("AXA")

The Company has entered into a definitive agreement and plan of merger (the "Merger Agreement") with AXA dated March 5, 2018, under which AXA would acquire 100% of the Company's common shares in exchange for cash proceeds of \$57.60 per common share of XL Group or approximately \$15.3 billion in the aggregate (the "AXA Transaction"). The Merger Agreement provides that, subject to the satisfaction or waiver of certain conditions set forth therein, the Company will merge with an existing AXA subsidiary in accordance with the Companies Act 1981 of Bermuda (the "Merger"), with the Company surviving the Merger as a wholly owned subsidiary of AXA. All preferred shares issued by subsidiaries of the Company will remain issued and outstanding upon completion of the Merger. The Merger is expected to close during the second half of 2018, subject to approval by the Company's shareholders and other customary closing conditions, including the receipt of required regulatory approvals. The Merger

Agreement, among other stipulations, permits: (i) the Company to pay out regular quarterly cash dividends not to exceed \$0.22 per common share per quarter, (ii) subsidiaries of the Company to pay periodic cash dividends on preferred shares not to exceed amounts contemplated by the applicable bye-laws or resolutions approving such preferred shares, and (iii) subsidiaries of the Company to pay dividends to XL Group and XLIT Ltd. ("XLIT"), the Company's holding companies, or any of its subsidiaries.

3. Segment Information

The Company is organized into two operating segments: Insurance and Reinsurance.

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The Company's general investment and financing operations are reflected in Corporate and Other. Subsequent to the transaction described in Note 1(a), "Significant Accounting Policies - Basis of Preparation and Consolidation," GCLR reinsures the majority of the Company's life reinsurance business through the GreyCastle Life Retro Arrangements. The results of the run-off life operations not subject to the GreyCastle Life Retro Arrangements are also reported within Corporate and Other.

The Company evaluates the performance of both the Insurance and Reinsurance segments based on underwriting profit. Other items of revenues and expenditures of the Company are not evaluated at the segment level. In addition, the Company does not allocate investment assets used to support its Property and Casualty ("P&C") operations to the individual segments, except as noted below. Investment assets related to the Company's run-off life operations are held in a separately identified portfolio. Net investment income from these assets is included in the contribution from Corporate and Other. Certain structured products included in the Insurance and Reinsurance segments are also held in separately identified portfolios. As such, net investment income from these assets is included in the contribution from the applicable segment.

The following tables summarize the segment results for the three months ended March 31, 2018 and 2017:

Three Months Ended March 31, 2018 (U.S. dollars in thousands)	Insurance	Reinsurance	Total P&C	Corporate and Other (1)	Total
Gross premiums written	\$2,866,539	\$2,060,601	\$4,927,140	\$52,595	\$4,979,735
Net premiums written	1,481,867	1,670,744	3,152,611	3,107	3,155,718
Net premiums earned	1,665,789	931,392	2,597,181	3,107	2,600,288
Less: Net losses and loss expenses (2)	1,064,992	557,014	1,622,006	10,307	1,632,313
Less: Acquisition costs	221,962	240,854	462,816	1,011	463,827
Less: Operating expenses (3)	316,380	73,539	389,919	141	390,060
Underwriting profit (loss)	\$62,455	\$59,985	\$122,440	\$(8,352)	\$114,088
Net investment income - excluding Life Funds Withheld Assets (4)			168,253	7,519	175,772
Net investment income - Life Funds Withheld Assets				30,398	30,398
Net results from structured products (5)	2,103	1,308	3,411	—	3,411
Net fee income and other (6)	(6,703)	892	(5,811)	69	(5,742)
Net realized investment gains (losses) - excluding Life Funds Withheld Assets			(60,957)	114	(60,843)
Net realized investment gains (losses) - Life Funds Withheld Assets			—	(22,512)	(22,512)
Net realized and unrealized gains (losses) on derivative instruments			—	4,221	4,221
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets			—	22,921	22,921
Net income (loss) from investment affiliates and operating affiliates			—	55,951	55,951
Less: Foreign exchange (gains) losses			—	9,841	9,841
Less: Corporate operating expenses			—	70,043	70,043
Contribution from P&C and Corporate and Other			227,336	10,445	237,781
Less: Interest expense (7)				44,646	44,646
Less: Income tax expense				31,902	31,902
Less: Non-controlling interests				8,585	8,585

Net income (loss) attributable to common shareholders					\$152,648
Ratios – P&C operations: (8)					
Loss and loss expense ratio	63.9	%	59.8	%	62.5 %
Underwriting expense ratio	32.4	%	33.8	%	32.8 %
Combined ratio	96.3	%	93.6	%	95.3 %

Corporate and Other includes other items of our revenue and expenditures that are not evaluated at the segment (1) level for reporting purposes. The underwriting profit (loss) and its components within this section are predominantly driven from the Company's run-off life operations.

(2) The Company has reflected the amortization of certain fair value adjustments recorded in conjunction with the Company's acquisition of Catlin Group Ltd in 2015 ("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 \$12.3 million and \$8.9 million, respectively.

(6) Net fee income and other includes operating expenses of \$12.5 million from the Company's loss prevention consulting services business.

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(7) Interest expense excludes interest expense related to structured products recorded in the Insurance and Reinsurance segments.

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

Three Months Ended March 31, 2017 (U.S. dollars in thousands)	Insurance	Reinsurance	Total P&C	Corporate and Other (1)	Total
Gross premiums written	\$2,694,216	\$1,927,390	\$4,621,606	\$56,811	\$4,678,417
Net premiums written	1,508,591	1,471,169	2,979,760	3,310	2,983,070
Net premiums earned	1,635,315	884,166	2,519,481	3,310	2,522,791
Less: Net losses and loss expenses (2)	1,060,363	523,093	1,583,456	7,291	1,590,747
Less: Acquisition costs (2)	210,483	224,079	434,562	1,307	435,869
Less: Operating expenses (3)	285,729	71,757	357,486	233	357,719
Underwriting profit (loss)	\$78,740	\$65,237	\$143,977	\$(5,521)	\$138,456
Net investment income - excluding Life Funds Withheld Assets (4)			146,566	7,227	153,793
Net investment income - Life Funds Withheld Assets				33,364	33,364
Net results from structured products (5)	2,269	645	2,914	—	2,914
Net fee income and other (6)	1,967	686	2,653	(438)	2,215
Net realized investment gains (losses) - excluding Life Funds Withheld Assets			4,831	(613)	4,218
Net realized investment gains (losses) - Life Funds Withheld Assets			—	33,068	33,068
Net realized and unrealized gains (losses) on derivative instruments			—	(7,069)	(7,069)
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets			—	(50,101)	(50,101)
Net income (loss) from investment affiliates and operating affiliates			—	51,870	51,870
Less: Foreign exchange (gains) losses			—	(3,336)	(3,336)
Less: Corporate operating expenses			—	98,873	98,873
Contribution from P&C and Corporate and Other			300,941	(33,750)	267,191
Less: Interest expense (7)				40,250	40,250
Less: Income tax expense				13,092	13,092
Less: Non-controlling interests				61,006	61,006
Net income (loss) attributable to common shareholders					\$152,843
Ratios – P&C operations: (8)					
Loss and loss expense ratio	64.8	% 59.2	% 62.8	%	
Underwriting expense ratio	30.4	% 33.4	% 31.5	%	
Combined ratio	95.2	% 92.6	% 94.3	%	

Corporate and Other includes other items of our revenue and expenditures that are not evaluated at the segment (1) level for reporting purposes. The underwriting profit (loss) and its components within this section are predominantly driven from 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 \$13.4 million and \$10.5 million, respectively.
- (6) Net fee income and other includes operating expenses of \$11.4 million from the Company's loss prevention consulting services business.
- (7) Interest expense excludes interest expense related to structured products recorded in the Insurance and Reinsurance segments.
- (8) Ratios are based on net premiums earned from P&C operations.

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The following tables summarize the Company's net premiums earned by product type for the three months ended March 31, 2018 and 2017:

Three Months Ended March 31, 2018 (U.S. dollars in thousands)	Insurance	Reinsurance	Corporate and Other	Total
P&C Operations:				
Professional	\$ 320,717	\$ 64,608	\$ —	\$ 385,325
Casualty	481,010	149,963	—	630,973
Property catastrophe	—	136,503	—	136,503
Property	406,778	258,089	—	664,867
Specialty	457,650	44,261	—	501,911
Other (1)	(366)	277,968	—	277,602
Total P&C Operations	\$ 1,665,789	\$ 931,392	\$ —	\$ 2,597,181
Corporate and Other:				
Run-off Life operations - Other Life	—	—	3,107	3,107
Total Corporate and Other	\$ —	\$ —	\$ 3,107	\$ 3,107
Total	\$ 1,665,789	\$ 931,392	\$ 3,107	\$ 2,600,288

Three Months Ended March 31, 2017 (U.S. dollars in thousands)	Insurance (2)	Reinsurance	Corporate and Other	Total
P&C Operations:				
Professional	\$ 305,482	\$ 52,926	\$ —	\$ 358,408
Casualty	474,195	156,634	—	630,829
Property catastrophe	—	148,406	—	148,406
Property	450,503	272,346	—	722,849
Specialty	402,687	36,626	—	439,313
Other (1)	2,448	217,228	—	219,676
Total P&C Operations	\$ 1,635,315	\$ 884,166	\$ —	\$ 2,519,481
Corporate and Other:				
Run-off Life operations - Other Life	—	—	3,310	3,310
Total Corporate and Other	\$ —	\$ —	\$ 3,310	\$ 3,310
Total	\$ 1,635,315	\$ 884,166	\$ 3,310	\$ 2,522,791

(1) Other within the Insurance segment includes: surety and certain discontinued lines. Other within the Reinsurance segment includes multiline, whole account contracts, credit and surety, accident and health and other lines.

Amounts from the prior year have been re-presented to reflect current mapping of underlying lines of business to be consistent with the manner in which they are reflected in the current period. The most significant movements include movements out of Other are in the Insurance segment, and include: livestock business into Specialty; and credit surety into Casualty.

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4. Investments

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

Amortized Cost and Fair Value Summary

The cost (amortized cost for fixed maturities and short-term investments), fair value, gross unrealized gains and gross unrealized (losses), including non-credit related OTTI recorded in accumulated other comprehensive income ("AOCI"), of the Company's investments AFS at March 31, 2018 and December 31, 2017 were as follows:

March 31, 2018 (U.S. dollars in thousands)	Cost or Amortized Cost	Included in AOCI		Fair Value	Non-credit Related OTTI (1)
		Gross Unrealized Gains	Gross Unrealized Losses		
Fixed maturities - AFS - Excluding Life Funds Withheld Assets					
U.S. Government and Government Agencies ("U.S. Government")	\$4,207,380	\$29,290	\$(48,711)	\$4,187,959	\$—
U.S. States, municipalities and political subdivisions	1,953,202	63,586	(3,626)	2,013,162	—
Non-U.S. Governments	5,260,650	98,496	(52,495)	5,306,651	—
Corporate	9,759,732	131,175	(148,237)	9,742,670	—
Residential mortgage-backed securities ("RMBS")	4,606,275	26,883	(103,435)	4,529,723	(8,434)
Commercial mortgage-backed securities ("CMBS")	1,292,559	2,263	(35,303)	1,259,519	(736)
Other asset-backed securities	1,588,637	26,172	(6,413)	1,608,396	(30,764)
Total fixed maturities - AFS - Excluding Life Funds Withheld Assets	\$28,668,435	\$377,865	\$(398,220)	\$28,648,080	\$(39,934)
Total short-term investments - Excluding Life Funds Withheld Assets	500,844	773	(1,447)	500,170	—
Total investments - AFS - Excluding Life Funds Withheld Assets	\$29,169,279	\$378,638	\$(399,667)	\$29,148,250	\$(39,934)
Fixed maturities - AFS - Life Funds Withheld Assets					
U.S. Government	\$9,420	\$2,196	\$—	\$11,616	\$—
Non-U.S. Governments	432,390	152,016	—	584,406	—
Corporate	919,151	202,052	—	1,121,203	—
RMBS	455	48	—	503	—
CMBS	105,505	24,565	—	130,070	—
Other asset-backed securities	132,990	27,760	—	160,750	—
Total fixed maturities - AFS - Life Funds Withheld Assets	\$1,599,911	\$408,637	\$—	\$2,008,548	\$—
Total investments - AFS	\$30,769,190	\$787,275	\$(399,667)	\$31,156,798	\$(39,934)

- (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 impairment measurement date.

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December 31, 2017 (U.S. dollars in thousands)	Cost or Amortized Cost	Included in AOCI		Fair Value	Non-credit Related OTTI (1)
		Gross Unrealized Gains	Gross Unrealized Losses		
Fixed maturities - AFS - Excluding Life Funds Withheld Assets					
U.S. Government	\$4,358,503	\$37,782	\$(33,545)	\$4,362,740	\$—
U.S. States, municipalities and political subdivisions	1,977,796	87,832	(988)	2,064,640	—
Non-U.S. Governments	5,135,526	114,918	(48,863)	5,201,581	—
Corporate	9,644,799	207,668	(57,334)	9,795,133	(18)
RMBS	4,717,542	41,983	(35,123)	4,724,402	(8,795)
CMBS	1,246,406	7,468	(9,857)	1,244,017	(817)
Other asset-backed securities	1,488,958	26,877	(6,472)	1,509,363	(34,016)
Total fixed maturities - AFS - Excluding Life Funds Withheld Assets	\$28,569,530	\$524,528	\$(192,182)	\$28,901,876	\$(43,646)
Total short-term investments - Excluding Life Funds Withheld Assets	816,638	744	(1,901)	815,481	—
Total equity securities - Excluding Life Funds Withheld Assets	638,455	80,679	(5,167)	713,967	—
Total investments - AFS - Excluding Life Funds Withheld Assets	\$30,024,623	\$605,951	\$(199,250)	\$30,431,324	\$(43,646)
Fixed maturities - AFS - Life Funds Withheld Assets					
U.S. Government	\$9,050	\$2,266	\$—	\$11,316	\$—
Non-U.S. Governments	433,664	150,870	—	584,534	—
Corporate	909,589	227,624	—	1,137,213	—
RMBS	448	67	—	515	—
CMBS	97,356	24,916	—	122,272	—
Other asset-backed securities	137,944	33,318	—	171,262	—
Total fixed maturities - AFS - Life Funds Withheld Assets	\$1,588,051	\$439,061	\$—	\$2,027,112	\$—
Total investments - AFS	\$31,612,674	\$1,045,012	\$(199,250)	\$32,458,436	\$(43,646)

(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 impairment measurement date.

The amortized cost and fair value of trading investments at March 31, 2018 and December 31, 2017 were as follows:

March 31, 2018 (U.S. dollars in thousands)	Amortized Cost	Fair Value
Fixed maturities trading - Life Funds Withheld Assets		
U.S. Government	\$9,729	\$9,320
Non-U.S. Governments	485,495	497,108
Corporate	1,507,879	1,525,761
RMBS	1,023	893
CMBS	7,358	7,472
Other asset-backed securities	44,238	43,697
Total fixed maturities trading - Life Funds Withheld Assets	\$2,055,722	\$2,084,251
Total short-term investments trading - Life Funds Withheld Assets	\$7,428	\$7,425
Total investments trading - Life Funds Withheld Assets	\$2,063,150	\$2,091,676

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December 31, 2017 (U.S. dollars in thousands)	Amortized Cost	Fair Value
Fixed maturities trading - Life Funds Withheld Assets		
U.S. Government	\$11,640	\$11,042
U.S. States, municipalities and political subdivisions	30	31
Non-U.S. Governments	473,849	485,171
Corporate	1,412,846	1,460,292
RMBS	1,020	932
CMBS	7,345	7,580
Other asset-backed securities	39,771	41,337
Total fixed maturities trading - Life Funds Withheld Assets	\$1,946,501	\$2,006,385
Total short-term investments trading - Life Funds Withheld Assets	\$14,969	\$14,965
Total investments trading - Life Funds Withheld Assets	\$1,961,470	\$2,021,350

At March 31, 2018 and December 31, 2017, approximately 3.5% and 3.3%, respectively, of the Company's fixed income investment portfolio at fair value, excluding cash and Life Funds Withheld Assets, was invested in securities that were below investment grade or not rated. Approximately 3.5% and 4.2% of the gross unrealized losses in the Company's fixed income investment portfolio, excluding cash and Life Funds Withheld Assets, at March 31, 2018 and December 31, 2017, respectively, related to securities that were below investment grade or not rated.

Contractual Maturities Summary

The contractual maturities of AFS fixed maturity securities at March 31, 2018 and December 31, 2017 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)	March 31, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Fixed maturities - AFS - Excluding Life Funds Withheld Assets				
Due less than one year	\$1,716,039	\$1,717,129	\$1,556,688	\$1,564,360
Due after 1 through 5 years	12,520,942	12,501,887	12,243,590	12,309,732
Due after 5 through 10 years	5,882,207	5,876,041	6,268,217	6,362,314
Due after 10 years	1,061,776	1,155,385	1,048,129	1,187,688
	\$21,180,964	\$21,250,442	\$21,116,624	\$21,424,094
RMBS	4,606,275	4,529,723	4,717,542	4,724,402
CMBS	1,292,559	1,259,519	1,246,406	1,244,017
Other asset-backed securities	1,588,637	1,608,396	1,488,958	1,509,363
Total mortgage and asset-backed securities	\$7,487,471	\$7,397,638	\$7,452,906	\$7,477,782
Total fixed maturities - AFS - Excluding Life Funds Withheld Assets	\$28,668,435	\$28,648,080	\$28,569,530	\$28,901,876
Fixed maturities - AFS - Life Funds Withheld Assets				
Due less than one year	\$66,237	\$68,315	\$47,143	\$49,233
Due after 1 through 5 years	274,247	296,715	286,524	313,227
Due after 5 through 10 years	167,949	201,133	168,897	205,536
Due after 10 years	852,528	1,151,062	849,739	1,165,067
	\$1,360,961	\$1,717,225	\$1,352,303	\$1,733,063
RMBS	455	503	448	515
CMBS	105,505	130,070	97,356	122,272
Other asset-backed securities	132,990	160,750	137,944	171,262
Total mortgage and asset-backed securities	\$238,950	\$291,323	\$235,748	\$294,049

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Total fixed maturities - AFS - Life Funds Withheld Assets	\$1,599,911	\$2,008,548	\$1,588,051	\$2,027,112
Total fixed maturities - AFS	\$30,268,346	\$30,656,628	\$30,157,581	\$30,928,988

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(U.S. dollars in thousands)	March 31, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Fixed maturities trading - Life Funds Withheld Assets				
Due less than one year	\$66,532	\$65,428	\$59,962	\$59,605
Due after 1 through 5 years	493,369	495,899	486,847	492,998
Due after 5 through 10 years	691,074	690,354	645,573	657,093
Due after 10 years	752,128	780,508	705,983	746,840
	\$2,003,103	\$2,032,189	\$1,898,365	\$1,956,536
RMBS	1,023	893	1,020	932
CMBS	7,358	7,472	7,345	7,580
Other asset-backed securities	44,238	43,697	39,771	41,337
Total mortgage and asset-backed securities	\$52,619	\$52,062	\$48,136	\$49,849
Total fixed maturities trading - Life Funds Withheld Assets	\$2,055,722	\$2,084,251	\$1,946,501	\$2,006,385

Pledged Assets

Certain of the Company's invested assets are pledged in support of insurance and reinsurance liabilities as well as to collateralize our 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 in pledged assets are Life Funds Withheld Assets, as noted in Note 1(a), "Significant Accounting Policies - Basis of Preparation and Consolidation." Additionally, certain deposit liabilities and annuity contracts require the use of pledged assets. At March 31, 2018 and December 31, 2017, the Company had \$17.9 billion and \$18.8 billion in pledged assets, respectively.

(b) Gross Unrealized Losses

The following is an analysis of how long the AFS securities at March 31, 2018 and December 31, 2017 had been in a continual unrealized loss position:

(U.S. dollars in thousands)	Less than 12 months		Equal to or greater than 12 months	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
March 31, 2018				
Fixed maturities and short-term investments - AFS				
U.S. Government	\$3,080,855	\$(38,758)	\$515,999	\$(11,350)
U.S. States, municipalities and political subdivisions	278,946	(3,222)	15,869	(404)
Non-U.S. Governments	2,061,869	(25,703)	487,103	(26,836)
Corporate	5,509,770	(114,092)	510,757	(34,148)
RMBS	2,973,309	(68,157)	846,423	(35,278)
CMBS	991,765	(26,681)	131,116	(8,622)
Other asset-backed securities	396,287	(2,502)	132,119	(3,914)
Total fixed maturities and short-term investments - AFS	\$15,292,801	\$(279,115)	\$2,639,386	\$(120,552)
December 31, 2017				
Fixed maturities and short-term investments - AFS				
U.S. Government	\$2,687,083	\$(21,514)	\$727,246	\$(13,902)
U.S. States, municipalities and political subdivisions	88,235	(622)	19,583	(366)

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Non-U.S. Governments	1,527,323	(14,959)	560,648	(33,931)
Corporate	2,959,416	(25,757)	543,973	(31,577)
RMBS	2,198,391	(14,030)	925,191	(21,093)
CMBS	583,656	(4,117)	138,065	(5,740)
Other asset-backed securities	256,823	(1,111)	175,146	(5,364)
Total fixed maturities and short-term investments - AFS	\$ 10,300,927	\$ (82,110)	\$ 3,089,852	\$ (111,973)

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The Company had gross unrealized losses totaling \$399.7 million on 4,061 securities out of a total of 7,851 held at March 31, 2018 in its AFS - Excluding Life Funds Withheld Assets portfolio, which either it considers to be temporarily impaired or reflects non-credit losses on other-than-temporarily impaired assets. Individual security positions comprising this balance have been evaluated by management, in conjunction with our investment managers, 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.

(c) Net Realized and Unrealized Gains (Losses)

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

Net Realized Investment Gains (Losses) (U.S. dollars in thousands)	Three months ended March 31,	
	2018	2017
Net realized gains (losses) on investments AFS - excluding Life Funds Withheld Assets: (1)		
Gross realized gains	\$19,330	\$39,397
Gross realized losses	(51,002)	(28,305)
OTTI, net of amounts transferred to other comprehensive income	(1,806)	(6,874)
Total	\$(33,478)	\$4,218
Net realized and change in net unrealized gains (losses) on equities securities - excluding Life Funds Withheld Assets:		
Gross realized gains	\$9,693	\$—
Gross realized losses	(126)	—
Change in net unrealized gains (losses) on equity securities	(45,581)	—
Total	\$(36,014)	\$—
Net realized and change in net unrealized gains (losses) on other investments - excluding Life Funds Withheld Assets:		
Gross realized gains	\$3,004	\$—
Gross realized losses	(1,163)	—
Change in net unrealized gains (losses) on other investments	6,808	—
Total	\$8,649	\$—
Net realized gains (losses) on investments and change in net unrealized gains (losses) on investments on trading securities - Life Funds Withheld Assets:		
Gross realized gains	\$12,909	\$35,151
Gross realized losses	(2,551)	(677)
OTTI, net of amounts transferred to other comprehensive income	(1,203)	—
Change in net unrealized gains (losses) on trading securities	\$(31,667)	\$(1,406)
Total	\$(22,512)	\$33,068
Total realized investment gains (losses)	\$(83,355)	\$37,286

AFS in the prior year includes net realized gains (losses) on equity securities and other investments. Due to the (1) implementation of ASU 2016-01, as described in in Note 1(b), "Significant Accounting Policies - Recent

Accounting Pronouncements," the net realized gains (losses) on these investments are shown separately. The components of OTTI charges for the three months ended March 31, 2018 and 2017, as defined in Note 1(g), "Significant Accounting Policies - Other-Than-Temporary Impairments of Available for Sale," to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, for investments excluding Life Funds Withheld Assets were:

Three months
ended March

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	31,	
(U.S. dollars in thousands)	2018	2017
Fixed maturities:		
Credit loss impairments	\$765	\$226
Equities and other investments:		
Impaired more than 11 months or more than 50%	—	4,975
Currency Losses	1,041	1,673
OTTI, net of amounts transferred to other comprehensive income	\$1,806	\$6,874

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The following table sets forth the amount of credit loss impairments on fixed income securities, for which a portion of the OTTI loss was recognized in Other Comprehensive Income ("OCI"), held by the Company at the dates or for the periods indicated and the corresponding changes in such amounts:

Credit Loss Impairments	Three months ended March 31,	
(U.S. dollars in thousands)	2018	2017
Opening balance at beginning of indicated period	\$43,332	\$61,595
Credit loss impairment recognized in the current period on securities not previously impaired	590	124
Credit loss impairments previously recognized on securities that matured or were paid down, prepaid or sold during the period	(1,156)	(836)
Additional credit loss impairments recognized in the current period on securities previously impaired	175	102
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(1,475)	(2,357)
Closing balance at end of indicated period	\$41,466	\$58,628

5. Derivative Instruments

The Company enters into derivative instruments for both risk management and investment purposes. The Company is exposed to potential loss from various market risks, and manages its market risks based on a comprehensive framework of investment decision authorities ("Authorities Framework") adopted by the Risk and Finance Committee of XL Group's Board of Directors ("RFC"). The Authorities Framework is intended to align the risk profile of our investment portfolio to be consistent with the Company's risk tolerance and other guidelines established by the RFC. The following table summarizes information on the notional amounts and gross amounts of derivative fair values contained in the Unaudited Consolidated Balance Sheets at March 31, 2018 and December 31, 2017:

(U.S. dollars in thousands)	March 31, 2018				December 31, 2017			
	Asset Derivative Notional Amount	Asset Derivative Fair Value	Liability Derivative Notional Amount	Liability Derivative Fair Value	Asset Derivative Notional Amount	Asset Derivative Fair Value	Liability Derivative Notional Amount	Liability Derivative Fair Value
Derivatives designated as hedging instruments:								
Foreign currency exposure	\$585,573	\$ 15,155	\$534,856	\$ 15,025	\$580,194	\$5,655	\$339,221	\$ 3,968
Total derivatives designated as hedging instruments	\$585,573	\$ 15,155	\$534,856	\$ 15,025	\$580,194	\$5,655	\$339,221	\$ 3,968
Derivatives not designated as hedging instruments:								
Investment Related Derivatives:								
Interest rate exposure	\$—	\$—	\$238,215	\$ 726	\$181,975	\$423	\$—	\$—
Foreign currency exposure	33,070	313	336,055	3,674	263,722	6,931	141,300	2,256
Credit exposure	5,000	128	45,000	6,262	5,000	187	45,000	6,784
Financial market exposure	—	—	40,823	3,873	30,001	1,271	6,998	42
Other Non-Investment Derivatives:								

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Credit exposure	20,242	334	—	—	—	—	25,526	169
Guaranteed minimum income benefit contract	35,288	17,841	35,288	17,841	36,171	18,136	36,171	18,136
Modified coinsurance and funds withheld contracts, including life retrocession embedded derivative (1)	917,921	2,132	4,230,047	—	51,653	—	5,014,284	31,541
Other	—	—	—	—	16,000	191	—	—
Total derivatives not designated as hedging instruments	\$1,011,521	\$20,748	\$4,925,428	\$32,376	\$584,522	\$27,139	\$5,269,279	\$58,928
Total derivatives		\$35,903		\$47,401		\$32,794		\$62,896
Counterparty netting		(7,239)		(7,239)		(3,579)		(3,579)
Total derivatives net of counterparty netting		28,664		40,162		29,215		59,317
Cash collateral held/paid (2)		(6,060)		(17,338)		(3,920)		(1,312)
Total derivatives as recorded in the Unaudited Consolidated Balance Sheets		\$22,604		\$22,824		\$25,295		\$58,005

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The fair value movements in derivative assets and liabilities relating to modified coinsurance and funds withheld contracts are included within the associated asset or liability at each period end on the face of the Unaudited Consolidated 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 (1) GreyCastle Life Retro Arrangements and other outward reinsurance contracts under which the Company cedes risk are recorded as liability derivative notional amounts. Included in the liability derivative notional amount at March 31, 2018 is the cumulative net realized and unrealized loss on the life retrocession embedded derivative of \$1.1 billion.

At March 31, 2018, the Company held cash collateral related to foreign currency derivative positions and certain other derivative positions of \$6.1 million for derivatives in an asset position and paid cash collateral of \$17.3 million for derivatives in a liability position. At December 31, 2017, the Company held cash collateral related to a (2) foreign currency derivative position and certain other derivative positions of \$3.9 million for derivatives in an asset position and paid cash collateral of \$1.3 million for derivatives in a liability position. The assets and liabilities related to the net collateral paid or held were recorded as Other assets and Other liabilities within the Unaudited Consolidated Balance Sheets as the collateral and derivative positions are not intended to be settled on a net basis. Derivative instruments in an asset or liability position are included within "Other assets" or "Other liabilities," respectively, at fair value in the Unaudited Consolidated 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. Certain embedded derivatives within reinsurance contracts are included in "Reinsurance balances payable." The Company often enters into different types of derivative contracts with a single counterparty and these contracts are covered under netting agreements. Changes in the fair values of derivatives are shown in the Unaudited Consolidated Statements 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 1(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, 2017.

(a) Derivative Instruments Designated as Hedges of a Net Investment in a Foreign Operation

The Company utilizes foreign currency contracts to hedge the fair value of certain net investments in foreign operations. During the three months ended March 31, 2018 and 2017, the Company entered into foreign currency contracts that were formally designated as hedges of investments in foreign subsidiaries, the majority of which have functional currencies of either the British pound or Canadian dollars. 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 months ended March 31, 2018 and 2017:

Derivative Instruments Designated as Hedges of a Net Investment in a Foreign Operation - Summary	Three months ended March 31,	
(U.S. dollars in thousands)	2018	2017
Weighted average of U.S. dollar equivalent of foreign denominated net assets	\$1,094,210	\$1,677,145
Derivative gains (losses) (1)	\$(2,323)	\$29,398

(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.

As described in Note 9, "Notes Payable and Debt and Financing Arrangements," the Company has issued debt denominated in Euros that is designated and qualifies as a non-derivative hedging instrument against an equal amount of the Company's currency exposure to the Euro resulting from net investments in foreign operations. Accordingly, the foreign currency revaluation of this debt is recorded in AOCI, offsetting the foreign currency translation adjustment of the related net investments that is also recorded in AOCI.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(b) 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. The impacts are all recorded through "Net realized and unrealized gains (losses) on derivative instruments" in the Unaudited Consolidated Statements of Income for the three months ended March 31, 2018 and 2017:

Net Realized and Unrealized Gains (Losses) on Derivative Instruments (U.S. dollars in thousands)	Three months ended March 31,	
	2018	2017
Investment Related Derivatives:		
Interest rate exposure	\$997	\$(214)
Foreign currency exposure	(3,318)	(745)
Credit exposure	(41)	(854)
Financial market exposure	(1,348)	185
Other Non-Investment Derivatives:		
Foreign currency exposure	—	(1,210)
Credit exposure	615	632
Modified coinsurance and funds withheld contracts, including life retrocession embedded derivative	2,492	(3,925)
Other	4,824	(938)
Net realized and unrealized gains (losses) on derivative instruments	\$4,221	\$(7,069)
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	\$22,921	\$(50,101)

The Company's objectives in using these derivatives are explained below.

Investment Related Derivatives

The Company, either directly or through third-party investment managers, may use derivative instruments within its investment portfolio, including interest rate swaps and options on interest rate swaps, total return swaps, credit derivatives (including single name and index credit default swaps and options on credit default swaps), equity options, forward contracts and futures (including foreign exchange, bond and stock index, interest rate and commodity futures), primarily as a means of reducing investment risk by 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 exchange-traded or cleared over-the-counter derivatives, the Company is exposed to the credit risk of the applicable clearing house and of the Company's futures commission merchant. When using uncleared over-the-counter derivatives, the Company is exposed to credit risk in the event of non-performance by the counterparties to such derivative contracts. To manage this risk, the Company requires appropriate legal documentation with counterparties that has been reviewed and negotiated by legal counsel on behalf of the Company and complies with the Company's documentation standards, investment guidelines and policies.

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

Investment Related Derivatives – Foreign Currency Exposure

The Company has exposure to foreign currency exchange rate fluctuations through its operations and in its investment portfolio. The Company uses foreign currency contracts to manage its exposure to the effects of fluctuating foreign currencies on the value of certain of its foreign currency fixed maturities and equities. 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 and basket 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. Credit derivatives may also be used to efficiently gain exposure to credit markets, subject to guidelines that prohibit the introduction of effective leverage.

Investment Related Derivatives – Financial Market Exposure

Stock index futures may be purchased within the Company's investment portfolio to create synthetic equity exposure and to add value to the portfolio with overlay strategies where market inefficiencies are believed to exist. Stock index futures may be sold to facilitate the timely and efficient reduction of equity exposure. Equity option strategies, including both purchases and sales of options, may be used to add value or reduce exposure with overlay or other strategies. From time to time, the Company may enter into other financial market exposure derivative contracts on various indices and other underlying financial instruments including, but not limited to, equity options, total return swaps, and commodity contracts.

Other Non-Investment Derivatives

Credit Exposure

During the year ended December 31, 2017, 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. At March 31, 2018, there was no reported event of default on this obligation. 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 defaults, delinquency and prepayment rates, credit spreads, changes in credit quality, and other market factors.

Guaranteed Minimum Income Benefit Contract

The Company 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, including Life Retrocession Embedded Derivative

The Company has modified coinsurance and funds withheld reinsurance agreements that provide for a return to be paid 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."

In addition, the Company entered into the GreyCastle Life Retro Arrangements, as described in Note 1(a), "Significant Accounting Policies - Basis of Preparation and Consolidation." The embedded derivative related to the GreyCastle 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 impact of the GreyCastle Life Retro Arrangements on the Company's results was as follows:

Impact of GreyCastle Life Retro Arrangements (U.S. dollars in thousands)	Three months ended March 31,	
	2018	2017
Underwriting profit (loss)	\$—	\$—
Net investment income - Life Funds Withheld Assets	30,398	33,364
Net realized gains (losses) on investments, trading - Life Funds Withheld Assets	10,358	34,474
Net unrealized gains (losses) on investments, trading - Life Funds Withheld Assets	(31,667)	(1,406)
OTTI - Life Funds Withheld Assets	(1,203)	—
Foreign exchange gains (losses)	10,719	3,294
Other income and expenses	(36)	(70)
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	22,921	(50,101)
Net income (loss)	\$41,490	\$19,555
Change in net unrealized gains (losses) on investments AFS - Life Funds Withheld Assets	(35,754)	(20,108)
Change in adjustments related to future policy benefit reserves	4,164	5,132
Change in cumulative translation adjustment - Life Funds Withheld Assets	(9,900)	(4,579)
Total changes to other comprehensive income as a result of GreyCastle Life Retro Arrangements	\$(41,490)	\$(19,555)
Comprehensive income (loss)	\$—	\$—

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

Other

The Company has entered into short-term weather derivative swap agreements as the fixed rate payer which provide for a return to be paid to the Company based on the occurrence of certain industry weather events. The derivatives are recorded at fair value with changes in fair value recognized in earnings through "Net realized and unrealized gains (losses) on derivative instruments."

(c) Derivative Instruments Designated as Fair Value Hedges

The Company may designate certain of its derivative instruments as fair value hedges or cash flow hedges, in which case it 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.

Settlement of Fair Value Hedges

During the fourth quarter of 2010 and the third quarter of 2012, the Company settled five interest rate contracts designated as fair value hedges of certain of the Company's structured indemnity contracts. The gain on settlement of these contracts, which represented the effective portion of the hedging relationship, was recorded as an increase in the carrying value of the deposit liabilities and is being amortized through interest expense over the remaining term of the structured indemnity contracts.

A summary of the fair value hedges that have been settled and their impact on results up to the indicated periods, as well as the remaining balance of the fair value hedges and average years remaining to maturity at March 31, 2018 and 2017, are shown below:

Settlement of Fair Value Hedges - Summary	Fair Value Hedges -
	Structured
	Indemnity Contracts
	March 31,

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(U.S. dollars in thousands, except years)	2018	2017
Cumulative reduction to interest expense	\$124,255	\$122,118
Remaining balance	\$108,940	\$111,077
Weighted average years remaining to maturity	18.3	18.7

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(d) 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 at March 31, 2018 and December 31, 2017 were as follows:

Contingent Credit Features - Summary:	March 31, 2018	December 31, 2017
(U.S. dollars in thousands)		
Aggregate fair value of derivative agreements with downgrade provisions in a net liability position	\$(7,872)	\$ 7,464
Collateral posted to counterparty	\$6,720	\$ 40

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

The fair values for AFS investments are generally sourced from third parties. The fair value of fixed income securities is based upon quoted market values where available, "evaluated bid" prices provided by third-party pricing services ("pricing services") where quoted market values are not available, or by reference to broker quotes where pricing services do not provide coverage for a particular security. While the Company receives values for the majority of the investment securities it holds from pricing services, it is ultimately management's responsibility to determine whether the values received and recorded in the financial statements are representative of appropriate fair value measurements. The Company performs regular reviews of the prices received from its third-party valuation sources to assess whether the prices represent a reasonable estimate of the fair value. The approaches taken by the Company include, but are not limited to, annual reviews of the controls of the external parties responsible for sourcing valuations that are subjected to automated tolerance checks, quarterly reviews of the valuation sources and dates, comparisons of executed sales prices to prior valuations, regular deep dives on a sample of securities across our major asset classes and monthly reconciliations between the valuations provided by external parties and valuations provided by third-party investment managers at a portfolio level.

In addition, the Company assesses the effectiveness of valuation controls performed by external parties responsible for sourcing appropriate valuations from third parties on its behalf. The approaches taken by these external parties to gain comfort include, but are not limited to, comparing valuations between external sources, completing recurring reviews of third-party pricing services' methodologies and reviewing controls of the third-party service providers to support the completeness and accuracy of the prices received. Where broker quotes are the primary source of the valuations, sufficient information regarding the specific inputs utilized by the brokers is generally not available to support a Level 2 classification. The Company obtains the majority of broker quoted values from third-party investment managers who perform independent verifications of these valuations using pricing matrices based upon information gathered by market traders. In addition, for the majority of these securities, the Company compares the broker quotes to

independent valuations obtained from pricing services, which may also consist of broker quotes, to assess if the prices received represent reasonable estimates of the fair value.

For further information about the Company's fair value measurements, see Item 8, Note 1(b), "Significant Accounting Policies - Fair Value Measurements," and Item 8, Note 8, "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, 2017.

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(a) Fair Value Summary

The following tables set forth the Company's assets and liabilities that were accounted for at fair value at March 31, 2018 and December 31, 2017 by level within the fair value hierarchy:

March 31, 2018 (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)	Counterparty Netting	Balance at March 31, 2018
Assets					
Fixed maturities - AFS - Excluding Life Funds					
Withheld Assets					
U.S. Government	\$—	\$4,182,925	\$ 5,034	\$ —	\$4,187,959
U.S. States, municipalities and political subdivisions	—	2,013,162	—	—	2,013,162
Non-U.S. Governments	—	5,306,651	—	—	5,306,651
Corporate	—	9,740,542	2,128	—	9,742,670
RMBS	—	4,522,786	6,937	—	4,529,723
CMBS	—	1,259,519	—	—	1,259,519
Other asset-backed securities	—	1,588,659	19,737	—	1,608,396
Total fixed maturities - AFS - Excluding Funds	\$—	\$28,614,244	\$ 33,836	\$ —	\$28,648,080
Withheld Assets, at fair value					
Short-term investments, at fair value (1)	—	500,170	—	—	500,170
Total investments AFS - Excluding Funds	\$—	\$29,114,414	\$ 33,836	\$ —	\$29,148,250
Withheld Assets					
Fixed maturities - Life Funds Withheld Assets					
U.S. Government	\$—	\$11,616	\$ —	\$ —	\$11,616
Non-U.S. Governments	—	584,406	—	—	584,406
Corporate	—	1,121,203	—	—	1,121,203
RMBS	—	503	—	—	503
CMBS	—	130,070	—	—	130,070
Other asset-backed securities	—	160,750	—	—	160,750
Total fixed maturities - AFS - Life Funds	\$—	\$2,008,548	\$ —	\$ —	\$2,008,548
Withheld Assets, at fair value					
Total investments - AFS, at fair value	\$—	\$31,122,962	\$ 33,836	\$ —	\$31,156,798
Fixed maturities trading					
U.S. Government	\$—	\$9,320	\$ —	\$ —	\$9,320
Non-U.S. Governments	—	497,108	—	—	497,108
Corporate	—	1,525,761	—	—	1,525,761
RMBS	—	893	—	—	893
CMBS	—	7,472	—	—	7,472
Other asset-backed securities	—	43,697	—	—	43,697
Total fixed maturities trading - Life Funds	\$—	\$2,084,251	\$ —	\$ —	\$2,084,251
Withheld Assets, at fair value					
Short-term investments trading, at fair value (1)	—	7,425	—	—	7,425

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Total investments trading	\$—	\$2,091,676	\$ —	\$ —	\$2,091,676
Cash equivalents (2)	522,096	1,409,637	—	—	1,931,733
Cash equivalents - Life Funds Withheld Assets (2)	1,514	77,938	—	—	79,452
Equity securities, at fair value	474,118	163,754	—	—	637,872
Other investments (3)	—	580,946	231,368	—	812,314
Other assets (4)	—	17,728	18,175	(7,239)	28,664
Total assets accounted for at fair value	\$997,728	\$35,464,641	\$ 283,379	\$ (7,239)	\$36,738,509
Liabilities					
Funds withheld on GreyCastle Life Retro					
Arrangements (net of future policy benefit reserves recoverable) (5)	\$—	\$1,085,099	\$ —	\$ —	\$1,085,099
Other liabilities (4)	—	29,560	17,841	(7,239)	40,162
Total liabilities accounted for at fair value	\$—	\$1,114,659	\$ 17,841	\$ (7,239)	\$1,125,261

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December 31, 2017 (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)	Counterparty Netting	Balance at December 31, 2017
Assets					
Fixed maturities - AFS - Excluding Life Funds					
Withheld Assets					
U.S. Government	\$—	\$4,344,450	\$ 18,290	\$ —	\$4,362,740
U.S. States, municipalities and political subdivisions	—	2,064,640	—	—	2,064,640
Non-U.S. Governments	—	5,201,581	—	—	5,201,581
Corporate	—	9,793,841	1,292	—	9,795,133
RMBS	—	4,724,402	—	—	4,724,402
CMBS	—	1,244,017	—	—	1,244,017
Other asset-backed securities	—	1,504,131	5,232	—	1,509,363
Total fixed maturities - AFS - Excluding Funds	\$—	\$28,877,062	\$ 24,814	\$ —	\$28,901,876
Withheld Assets, at fair value					
Short-term investments, at fair value (1)	—	815,481	—	—	815,481
Equity securities, at fair value	557,510	156,457	—	—	713,967
Total investments AFS - Excluding Funds Withheld	\$557,510	\$29,849,000	\$ 24,814	\$ —	\$30,431,324
Assets					
Fixed maturities - Life Funds Withheld Assets					
U.S. Government	\$—	\$11,316	\$ —	\$ —	\$11,316
Non-U.S. Governments	—	584,534	—	—	584,534
Corporate	—	1,137,213	—	—	1,137,213
RMBS	—	515	—	—	515
CMBS	—	122,272	—	—	122,272
Other asset-backed securities	—	171,262	—	—	171,262
Total fixed maturities - AFS - Life Funds Withheld	\$—	\$2,027,112	\$ —	\$ —	\$2,027,112
Assets, at fair value					
Total investments - AFS, at fair value	\$557,510	\$31,876,112	\$ 24,814	\$ —	\$32,458,436
Fixed maturities trading					
U.S. Government	\$—	\$11,042	\$ —	\$ —	\$11,042
U.S. States, municipalities and political subdivisions	—	31	—	—	31
Non-U.S. Governments	—	485,171	—	—	485,171
Corporate	—	1,460,292	—	—	1,460,292
RMBS	—	932	—	—	932
CMBS	—	7,580	—	—	7,580
Other asset-backed securities	—	41,337	—	—	41,337
Total fixed maturities trading - Life Funds Withheld	\$—	\$2,006,385	\$ —	\$ —	\$2,006,385
Assets, at fair value					
Short-term investments trading, at fair value (1)	—	14,965	—	—	14,965
Total investments trading	\$—	\$2,021,350	\$ —	\$ —	\$2,021,350
Cash equivalents (2)	279,224	1,271,483	—	—	1,550,707

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Cash equivalents - Life Funds Withheld Assets (2)	—	67,982	—	—	67,982
Other investments (3)	—	570,931	221,708	—	792,639
Other assets (4)	—	14,467	18,327	(3,579)	29,215
Total assets accounted for at fair value	\$836,734	\$35,822,325	\$ 264,849	\$ (3,579)	\$36,920,329
Liabilities					
Funds withheld on GreyCastle Life Retro					
Arrangements (net of future policy benefit reserves	\$—	\$1,112,969	\$ —	\$ —	\$1,112,969
recoverable) (5)					
Other liabilities (4)	—	44,591	18,305	(3,579)	59,317
Total liabilities accounted for at fair value	\$—	\$1,157,560	\$ 18,305	\$ (3,579)	\$1,172,286

(1) Short-term investments consist primarily of U.S. and Non-U.S. Government securities, Corporate securities, and Other asset-backed securities.

(2) Cash equivalents balances subject to fair value measurement include certificates of deposit and money market funds. Operating cash balances are not subject to recurring fair value measurement guidance.

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Excluded from Other Investments are certain investments that are measured using net asset value as a practical expedient in the amount of \$201.8 million and \$198.2 million at March 31, 2018 and December 31, 2017, respectively. Under GAAP, these investments are excluded from the fair value hierarchy table. In addition, the (3) Other investments balance excludes loans held at amortized cost, which totaled \$172.9 million at March 31, 2018 and \$173.0 million at December 31, 2017. For further information, see Item 8, Note 6, "Other Investments," to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Other assets and other liabilities include derivative instruments. The derivative balances included in each category are reported gross of cash collateral by level with a counterparty netting adjustment presented separately in the (4) 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 5, "Derivative Instruments."

Funds withheld on GreyCastle Life Retro Arrangements (net of future policy benefit reserves recoverable) include (5) balances related to the life retrocession embedded derivative, under which all investment results associated with the Life Funds Withheld Assets related to the GreyCastle Life Retro Arrangements described in Note 1(a), "Significant Accounting Policies - Basis of Preparation and Consolidation," accrue to the benefit of GCLR.

(b) Level 2 Asset Valuations

U.S. Government, Corporate and Non-U.S. Governments

Transaction activity inputs utilized in the valuation of fair value hierarchy Level 2 securities within these sub-categories include actual trades, dealer posts, results of bids-wanted, institutional secondary offerings, primary market offerings and Trade Reporting and Compliance Engine ("TRACE") trade feeds. As part of the evaluation process, transaction activity is compared to prior evaluations and necessary adjustments are made accordingly. Market-color inputs include actively quoted benchmark issues, buy-side/evaluator dialogue, sell-side/evaluator dialogue and credit derivative indices.

U.S. States, municipalities and political subdivisions

Transaction activity inputs utilized in the valuation of fair value hierarchy Level 2 securities within this sub-category include actual trades, dealer posts, results of bids-wanted, institutional secondary offerings, primary market offerings, and Municipal Securities Rulemaking trade feeds. As part of the evaluation process, transaction activity is compared to prior evaluations and necessary adjustments are made accordingly. Market-color inputs include bids, offerings, two-sided markets, buy-side/evaluator dialogue and sell-side/evaluator dialogue. Credit information inputs include issuer financial statements, default and material event notices, developer reports and liquidation and restructuring analyses.

RMBS, CMBS and Other asset-backed securities

As part of the fair valuation process, Level 2 securities in these sub-categories are analyzed by collateral type, deal structure, deal performance and vintage. Market inputs into the valuation process for each sub-category include reported or observed trades, results of bids-wanted, buy-side/evaluator dialogue, sell-side/evaluator dialogue, dealer offerings and market research reports. Cash flow inputs into the evaluation process include conditional prepayment rates, conditional decay rates, delinquency and loss severity rates. This assumptive data is reviewed and updated using third-party reported information to reflect current market convention.

Equity securities and other investments

Equity securities and other investment securities generally include investments in thinly traded equity funds and fixed income funds (including overseas deposits). Fair value is determined based upon prices received from pricing services as well as from net asset values ("NAV") received from the fund administrators.

Other assets and other liabilities

Other assets and other liabilities primarily include over-the-counter ("OTC") derivatives, which are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative independent pricing sources

where an understanding of the inputs utilized in arriving at the valuations is obtained. Where models are used, the selection of a particular model to value an OTC derivative depends upon the contractual terms and specific risks inherent in the instrument as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, interest rate swaps and options, model inputs can generally be verified against observable inputs and model selection does not involve significant management judgment.

Funds withheld on GreyCastle Life Retro Arrangements (net of future policy benefit reserves recoverable)

The calculation of the change in fair value of the embedded derivative associated with the GreyCastle Life Retro Arrangements includes the interest income, realized and unrealized gains and losses on Life Funds Withheld Assets and certain

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expenses related to the Life Funds Withheld Assets. The fair value of the embedded derivative is included in "Funds withheld on GreyCastle life retrocession arrangements, net of future policy benefit reserves recoverable" on the Unaudited Consolidated Balance Sheets. The fair value of the embedded derivative is considered a Level 2 valuation. There were no significant transfers between Level 1 and Level 2 during each of the three months ended March 31, 2018 and 2017.

(c) Level 3 Assets and Liabilities

The tables below present additional information about assets and liabilities measured at fair value on a recurring basis and for which Level 3 inputs were utilized to determine fair value. The tables present a reconciliation of the beginning and ending balances for the three months ended March 31, 2018 and 2017 for all financial assets and liabilities measured at fair value using significant unobservable inputs (Level 3) at March 31, 2018 and 2017, 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 March 31, 2018 and 2017, 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, the tables below do not take into consideration the effect of offsetting Level 1 and 2 financial instruments entered into by the Company that are either economically hedged by certain exposures to the Level 3 positions or that hedge the exposures in Level 3 positions.

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

Fixed maturities and short-term investments

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

The remainder of the Level 3 assets relate primarily to private investments (including funds), hedge funds and certain derivative positions as described below.

Other investments

Included within the other investments component of the Company's Level 3 valuations are private investments (including funds) and hedge funds where the Company is not deemed to have significant influence over the investee. The fair value of these investments is based upon net asset values received from the investment manager or general partner of the respective entity. The underlying investments held by the investee that form the basis of the net asset value include assets such as private business ventures that require significant Level 3 inputs in the determination of the individual underlying holding values. Accordingly, the fair value of the Company's investment in each entity is classified within Level 3. Management reviews the values and 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 received in recording the fair value of each position. Investments in hedge funds included in other investments utilize strategies including arbitrage, directional, event driven and multi-style. The funds potentially have lockup and gate provisions that may limit redemption liquidity. For further details regarding the nature of other investments and related features, see Item 8, Note 6, "Other Investments," to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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Derivative instruments

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

Level 3 Assets and Liabilities - Three Months Ended March 31, 2018

(U.S. dollars in thousands)	Balance, beginning of period	Realized gains (losses)	Movement in unrealized gains (losses)	Purchases and Issuances	Sales	Settlements	Net transfers into (out of) Level 3	Balance, end of period	Movement in total gains (losses) relating to investments still held
U.S. Government	\$18,290	\$(354)	\$114	\$—	\$(13,016)	\$—	\$—	\$5,034	\$(36)
Corporate	1,292	—	43	—	—	(101)	894	2,128	44
RMBS	—	—	—	980	—	—	5,957	6,937	—
Other asset-backed securities	5,232	—	(28)	15,407	—	(874)	—	19,737	—
Other investments	221,708	847	5,191	14,280	—	(10,658)	—	231,368	5,338
Derivative Contracts - Net	22	—	312	—	—	—	—	334	312
Total	\$246,544	\$493	\$5,632	\$30,667	\$(13,016)	\$(11,633)	\$6,851	\$265,538	\$5,658

Level 3 Assets and Liabilities - Three Months Ended March 31, 2017

(U.S. dollars in thousands)	Balance, beginning of period	Realized gains (losses)	Movement in unrealized gains (losses)	Purchases and Issuances	Sales	Settlements	Net transfers into (out of) Level 3	Balance, end of period	Movement in total gains (losses) relating to investments still held
U.S. Government	\$24,751	\$(19)	\$(355)	\$—	\$—	\$(311)	\$(4,758)	\$19,308	\$(373)
Corporate	20,085	—	11	—	(10,284)	(31)	118	9,899	11
RMBS	—	17	(526)	—	—	(173)	4,063	3,381	(509)
CMBS	99	—	2	—	—	—	—	101	2
Other asset-backed securities	1,131	30	101	—	—	(46)	2,734	3,950	131
Short-term investments	—	—	—	11,693	—	(28)	—	11,665	—
Other investments	205,528	(5,541)	7,102	4,982	—	(5,397)	(2,709)	203,965	6,343
Derivative Contracts - Net	2	—	161	—	—	—	—	163	163
Total	\$251,596	\$(5,513)	\$6,496	\$16,675	\$(10,284)	\$(5,986)	\$(552)	\$252,432	\$5,768

(d) Financial Instruments Not Carried at Fair Value

Authoritative guidance over disclosures about the fair value of financial instruments requires additional disclosure of fair value information for financial instruments not carried at fair value in both interim and annual reporting periods. Certain financial instruments, particularly insurance contracts, are excluded from these fair value disclosure requirements. The carrying values of cash and cash equivalents, accrued investment income, net receivable from investments sold, other assets, net payable for investments purchased, other liabilities and other financial instruments not included below approximated their fair values.

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The following table includes financial instruments for which the carrying value differs from the estimated fair values at March 31, 2018 and December 31, 2017. All of these fair value estimates are considered Level 2 fair value measurements.

(U.S. dollars in thousands)	March 31, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets - Other investments	\$172,879	\$181,349	\$172,982	\$182,222
Deposit liabilities	\$982,963	\$1,190,885	\$1,042,677	\$1,266,682
Notes payable and debt	3,240,461	3,483,428	3,220,769	3,507,108
Financial Liabilities	\$4,223,424	\$4,674,313	\$4,263,446	\$4,773,790

The Company historically participated in structured transactions, the remaining of which are largely comprised of an investment in a payment obligation with an insurance company. This transaction is carried at amortized cost. The fair value of this investment held by the Company is determined through use of an internal model utilizing benchmark yields, issuer spreads 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 26.3 basis points and 45.5 basis points at March 31, 2018 and December 31, 2017, 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 not carried at fair value as defined in the authoritative guidance over necessary disclosures, which excludes certain financial instruments, particularly insurance contracts.

7. Goodwill and Other Intangible Assets

The Company had goodwill and other intangible assets of \$2.2 billion at March 31, 2018 and December 31, 2017.

The following table presents an analysis of goodwill, intangible assets with an indefinite life and intangible assets with a definite life for the three months ended March 31, 2018:

(U.S. dollars in thousands)	Goodwill	Intangible assets		Total
		with an indefinite life	with a definite life	
Balance at December 31, 2017	\$1,234,150	\$699,014	\$292,587	\$2,225,751
Amortization	—	—	(4,944)	(4,944)
Foreign Currency Translation	4,850	2,916	1,933	9,699
Balance at March 31, 2018	\$1,239,000	\$701,930	\$289,576	\$2,230,506

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8. Losses and Loss Expenses

The following table represents a reconciliation of the beginning and ending balances of unpaid losses and loss expenses, including an analysis of the Company's paid and unpaid losses and loss expenses incurred for the years indicated:

(U.S. dollars in thousands)	2018	2017
Unpaid losses and loss expenses at the beginning of the year	\$29,696,779	\$25,939,571
Unpaid losses and loss expenses recoverable at the beginning of the year (1)	7,239,446	5,480,300
Net unpaid losses and loss expenses at the beginning of the year	\$22,457,333	\$20,459,271
Increase (decrease) in net losses and loss expenses incurred in respect of losses occurring in:		
Current year	1,631,142	1,559,452
Prior year	(9,136)	) 24,004
Total net incurred losses and loss expenses	\$1,622,006	\$1,583,456
Foreign exchange and other	262,571	56,244
Less net losses and loss expenses paid in respect of losses occurring in:		
Current year	128,691	106,472
Prior year	1,774,194	1,222,119
Total net paid losses	\$1,902,885	\$1,328,591
Net unpaid losses and loss expenses at March 31	22,439,025	20,770,380
Unpaid losses and loss expenses recoverable at March 31 (1)	7,262,543	5,674,744
Unpaid losses and loss expenses at March 31	\$29,701,568	\$26,445,124

(1)P&C business only, net of provision for uncollectible reinsurance.

The following table presents the net (favorable) adverse prior year loss development of the Company's loss and loss expense reserves for its P&C operations by operating segment for each of the years indicated:

	Three Months Ended March 31,	
(U.S. dollars in thousands)	2018	2017
Insurance segment	\$(5,295)	\$(4,642)
Reinsurance segment	(3,841)	28,646
Total	\$(9,136)	\$24,004

The significant developments in prior year loss reserve estimates for each of the years indicated within the Company's Insurance and Reinsurance segments are discussed below.

Insurance Segment

The following table summarizes the net (favorable) adverse prior year reserve development by product type relating to the Insurance segment for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,	
(U.S. dollars in thousands)	2018	2017
Professional	\$(1,830)	\$(5)
Casualty	(5,115)	(4,770)
Property	1,257	81
Specialty	393	52
Total	\$(5,295)	\$(4,642)

Net favorable prior year reserve development was \$5.3 million for the three months ended March 31, 2018 for the Insurance segment. Although movements were small by product type, this was a result of offsetting movements in catastrophe losses, with strengthening on recent 2017 catastrophes offset by releases on more mature events. Net favorable prior year reserve development totaled \$4.6 million for the Insurance segment for the three months ended March 31, 2017. This development was mainly attributable to casualty lines of business.

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Reinsurance Segment

The following table summarizes the net (favorable) adverse prior year reserve development by line of business relating to the Reinsurance segment for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,	
(U.S. dollars in thousands)	2018	2017
Property and other short-tail lines	\$(18,994)	\$(54,916)
Casualty and other long-tail lines	15,153	83,562
Total	\$(3,841)	\$28,646

Net favorable prior year reserve development was \$3.8 million for the three months ended March 31, 2018 for the Reinsurance segment, mainly attributable to the following:

Net favorable prior year development for the short-tail lines totaled \$19.0 million primarily due to better than expected development on attritional losses on the Property, Marine and Crop books, releases on older catastrophe losses and the general catastrophe IBNR held at the end of the prior year being partially offset by strengthening on Hurricane Irma, the Northern California wildfires and some older large losses.

Net unfavorable prior year development for the long-tail lines totaled \$15.2 million driven primarily by unfavorable experience on the 2014 underwriting year for the London professional indemnity and European motor casualty books.

Net unfavorable prior year reserve development totaled \$28.6 million for the three months ended March 31, 2017. The net adverse prior year development was primarily due to the impact of the decrease to the discount rate used to calculate lump sum awards in U.K. bodily injury cases. This adverse development was partially offset by better than expected attritional experience in property catastrophe, property treaty and specialty lines.

There is no assurance that conditions and trends that have affected the development of liabilities in the past will continue. Accordingly, it may not be appropriate to extrapolate future redundancies or deficiencies based on the Company's historical results.

9. Notes Payable and Debt and Financing Arrangements

(a) Notes Payable and Debt

The following table presents the Company's outstanding notes payable and debt at March 31, 2018 and December 31, 2017:

(U.S. dollars in thousands)	March 31, 2018 Outstanding (1)	December 31, 2017 Outstanding (1)
Debt Issuance:		
\$300 million, 2.30% Senior Notes due December 2018	\$299,525	\$299,357
\$400 million, 5.75% Senior Notes due October 2021	398,492	398,384
\$350 million, 6.375% Senior Notes due November 2024	349,275	349,248
\$500 million, 4.45% Subordinated Notes due March 2025	494,340	494,138
\$325 million, 6.25% Senior Notes due May 2027	323,571	323,531
\$300 million, 5.25% Senior Notes due December 2043	296,593	296,560
\$500 million, 5.5% Subordinated Notes due March 2045 (2)	472,928	472,832
€500 million, 3.25% Subordinated Notes due June 2047 (3)	605,737	586,719
Total debt carrying value	\$3,240,461	\$3,220,769

(1) "Outstanding" data represent March 31, 2018 and December 31, 2017 accreted values.

(2) On July 7, 2017, the Company repurchased and canceled \$16.7 million of the original debt issuance. See below for further details.

(3)

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This issuance carries a fixed coupon of 3.25% for a period of ten years, then a floating rate of three-month EURIBOR plus 2.90% from (and including) June 29, 2027 through maturity. The outstanding amount is subject to movement due to foreign exchange.

All outstanding debt of the Company at March 31, 2018 and December 31, 2017, which is identified in the table above, was issued by XLIT, a 100% owned subsidiary of XL Group. XLIT's outstanding debt, other than the Senior Notes due 2024 and due 2027, are listed on the NYSE and are fully and unconditionally guaranteed by XL Group. See Note 16, "Guarantor

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Financial Information," for condensed comparative financial information of XL Group and XLIT for the periods ended March 31, 2018 and December 31, 2017.

The ability of XLIT, like that of the Company, to obtain funds from its subsidiaries to satisfy any of its obligations, including under guarantees, is subject to certain contractual restrictions, applicable laws and statutory requirements of the various countries in which the subsidiaries operate, including, among others, Bermuda, the United States, Ireland, Switzerland and the United Kingdom. For details of the required statutory capital and surplus for the principal operating subsidiaries of the Company, see Item 8, Note 24, "Statutory Financial Data," to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

On June 29, 2017, XLIT issued €500 million (\$568.8 million) of fixed to floating rate subordinated notes due June 2047, with a fixed coupon of 3.25% for a period of ten years, then a floating rate of three-month EURIBOR plus 2.90% thereafter. The notes were issued at 99.054% of the face amount and net proceeds were \$558.3 million. Related expenses of the offering amounted to approximately \$10.5 million. These costs were deferred and are being amortized over the expected life of the subordinated notes.

XLIT and the Company were in compliance with all covenants at March 31, 2018, and XLIT and the Company currently remain in compliance with all covenants.

For details regarding the rest of the Company's facilities, see Item 8, Note 14(a), "Notes Payable and Debt and Financing Arrangements - Notes Payable and Debt," to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

(b) Letter of Credit ("LOC") Facilities and Other Sources of Collateral

The Company has several credit facilities provided on both syndicated and bilateral bases from commercial banks. The Company may utilize these credit facilities to issue LOCs in support of non-admitted insurance and reinsurance operations in the U.S. and to meet capital requirements at Lloyd's. Alternatively, under certain of the credit facilities, the Company instead may elect to utilize a stated portion of such facilities' capacity for revolving loans to support other operating or financing needs, which would reduce the amount available for LOCs. XL Group and several of its wholly-owned subsidiaries provide guarantees, on a joint and several basis, for obligations of the Company under certain of these facilities.

The following table presents the Company's ten letter of credit facilities and revolving credit facilities at March 31, 2018 and December 31, 2017:

Facility Name:	March 31, 2018		December 31, 2017	
	Commitment	In Use/ Outstanding	Commitment	In Use/ Outstanding
2016 Credit Agricole Facility I	125,000	125,000	125,000	125,000
2016 Credit Agricole Facility II	125,000	125,000	125,000	125,000
2017 Commonwealth Bank Facility	215,000	215,000	215,000	215,000
2017 Credit Suisse Facility	100,000	100,000	100,000	100,000
FAL Facility I	125,000	125,000	125,000	125,000
FAL Facility II	125,000	125,000	125,000	125,000
FAL Facility III	125,000	125,000	125,000	125,000
FAL Facility IV	125,000	125,000	125,000	125,000
Syndicated Unsecured Facility	750,000	105,655	750,000	2,000
2017 Commerzbank Facility	100,000	100,000	100,000	100,000
Total unsecured LOC facilities	\$1,915,000	\$1,270,655	\$1,915,000	\$1,167,000
Facilities collateralized by certain investment assets	1,552,841	1,536,556	1,477,986	1,382,226
Total LOC facilities	\$3,467,841	\$2,807,211	\$3,392,986	\$2,549,226

Percentage of facilities collateralized by certain investment assets	54.7	%	54.2	%
--	------	---	------	---

Certain credit facilities permit the Company to utilize up to \$750.0 million as of March 31, 2018 and December 31, 2017, respectively, for revolving loans to support general operating and financing needs. At March 31, 2018 and December 31, 2017, \$105.7 million and \$2.0 million, respectively, were utilized under these facilities to issue letters of credit, leaving \$644.3 million and \$748.0 million, respectively, available to support other operating and financing needs.

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For details regarding the Company's facilities, see Item 8, Note 14(b), "Notes Payable and Debt and Financing Arrangements - Letter of Credit Facilities ("LOC") and Other Sources of Collateral," to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

10. Related Party Transactions

(a) Investment Manager Affiliates

At March 31, 2018 and 2017, the Company owned minority stakes in two and four independent investment management companies ("Investment Manager Affiliates"), respectively, that are actively managing client capital and seeking growth opportunities. The Company also invests in certain of the funds and limited partnerships and other legal entities managed by these affiliates, and, through these funds and partnerships, pays management fees and, in some instances, performance fees to the Company's Investment Manager Affiliates. In addition, at March 31, 2018 and March 31, 2017, the Company owned a minority stake in an independent firm that provides technology and other services to alternative asset managers and allocators. The Company's interest in this enterprise is reported as an Investment Manager Affiliate, and the Company pays fees to this Investment Manager Affiliate in exchange for it providing its services to the Company. Investment Manager Affiliate results are reported in the Unaudited Consolidated Statements of Income as "Income (loss) from operating affiliates." See Item 8, Note 5, "Investments in Affiliates," to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

(b) Assumed Reinsurance Contracts

In the normal course of business, the Company enters into assumed reinsurance contracts with certain of its insurance affiliates, or their subsidiaries. During the three months ended March 31, 2018 and 2017, these contracts resulted in reported net premiums, reported net losses, and reported net acquisition costs as summarized below:

(U.S. dollars in thousands)	Three months	
	ended March 31,	
	2018	2017
Reported net premiums	\$15,578	\$21,715
Reported net losses	\$11,719	\$11,250
Reported net acquisition costs	\$5,587	\$9,214

(c) New Ocean Capital Management Limited ("New Ocean")

Commencing in 2014, several of the Company's wholly-owned subsidiaries retroceded assumed reinsurance business to special purpose reinsurers that receive capital from funds managed by the Company's subsidiary, New Ocean, as discussed in Note 11, "Variable Interest Entities." Underwriting administration services are provided to the special purpose reinsurers by other subsidiaries of the Company under service fee agreements, while investment advisory services are provided by New Ocean. During the three months ended March 31, 2018, ceded premiums earned, ceded losses and loss expenses incurred, ceding commission income, and other fee income related to these retrocessional contracts were not material to the Company.

(d) XL Innovate

In April 2015, the Company announced the creation and sponsorship of the XL Innovate Fund, LP ("XL Innovate"), a venture capital initiative with a strategic focus on developing new capabilities in the insurance sector. The majority of XL Innovate's initial capital was financed by the Company. XL Innovate primarily seeks investments in equity positions of entities that provide new market opportunities for the Company throughout the world, striving to create partnerships outside of the traditional underwriting space to find ways to underwrite currently uninsured risks. The family trust of an employee of the Company owns a 5.21% non-controlling equity interest in XL Innovate. The employee serves as a member of the board of directors of XL Innovate, and maintains responsibility over the business generated by it. The underlying investments held by XL Innovate are reflected in the Company's Unaudited Consolidated Financial Statements in accordance with the Accounting Policies provided in Item 8, Note 1, "Significant Accounting Policies" to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, based on the Company's level of investment in, and control

over, such entities. Aside from investments made where the employee's family trust maintains non-controlling interest, there were no other material transactions between the Company and this employee or the employee's family trust for the three months ended March 31, 2018.

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11. Variable Interest Entities ("VIEs")

At times, the Company has utilized VIEs both indirectly and directly in the ordinary course of the Company's business. Within its investment portfolio, the Company has holdings in hedge funds, private equity entities and other investment vehicles. A number of these vehicles are considered VIEs based on their legal form and the generally passive role of their investors. As the Company lacks the ability to control the activities that most significantly impact the economic performance of these VIEs, the Company is not considered the primary beneficiary and does not consolidate these entities. The activities of the entities are generally limited to holding investments. The exposure to loss from these investments is limited to the carrying value of the investments at the balance sheet date.

In 2013, the Company, along with other investors, formed New Ocean to act as an investment manager focused on providing third-party investors access to insurance-linked securities, such as catastrophe bonds, and other insurance and reinsurance capital markets products. The Company holds a majority voting interest in New Ocean through its ownership of common shares and, accordingly, the financial statements of New Ocean have been included in the Unaudited Consolidated Financial Statements of the Company. None of the assets, liabilities, revenues or net income of New Ocean were material to the Company as of or for the three months ended March 31, 2018. The equity interest attributable to third-party investors in New Ocean recorded in the Company's Unaudited Consolidated Balance Sheets as "Non-controlling interest in equity of consolidated subsidiaries" was \$0.2 million and \$0.5 million at March 31, 2018 and December 31, 2017, respectively.

After the establishment of New Ocean in 2013, the Company, along with other investors, formed a new Bermuda-based investment company, New Ocean Focus Cat Fund Ltd. ("New Ocean FCFL"), which is considered a VIE under GAAP. During the second quarter of 2014, the Company formed another new Bermuda-based investment company, New Ocean Market Value Cat Fund, Ltd. ("New Ocean MVCFL"), which is also considered a VIE under GAAP. New Ocean FCFL and New Ocean MVCFL are both managed by New Ocean.

In 2014, New Ocean FCFL invested in a special purpose Bermuda reinsurer, Vector Reinsurance Ltd ("Vector Re"), which was formed for the purpose of underwriting collateralized excess-of-loss reinsurance with a focus on global property catastrophe risks. In the first quarter of 2015, New Ocean MVCFL also invested in Vector Re. Most of Vector Re's current underwriting activity relates to reinsurance business assumed from the Company's subsidiaries. Underwriting administration and claims services are provided to Vector Re by the Company under service fee contracts, while investment advisory services are provided by New Ocean.

The Company currently holds a controlling financial interest in Vector Re by way of its controlling financial interests in New Ocean FCFL and New Ocean MVCFL. The total net assets of New Ocean FCFL and New Ocean MVCFL are included in the Unaudited Consolidated Financial Statements of the Company as quantified in the table below. The Company's shares of revenue and net income in its New Ocean-related VIEs were not material to the Company for the three months ended March 31, 2018. All appropriate inter-company transactions between the Company's consolidated entities have been eliminated.

(U.S. dollars in thousands)	March 31, 2018	December 31, 2017
Total net assets	\$235,936	\$242,605
Non-controlling interests	127,650	134,139
Total net assets attributable to XL	\$108,286	\$108,466

12. Commitments and Contingencies

(a) Financial Guarantee Exposures

In February 2017, the Company negotiated the termination of its final outstanding financial guarantee contracts. These contracts provided credit support for a variety of collateral types, including some issued by European financial institutions. The Company did not recognize any financial costs or any security valuation losses as a result of the terminations.

(b) Litigation

The Company and its subsidiaries are subject to litigation and arbitration in the normal course of business. These lawsuits and arbitrations principally involve claims on policies of insurance and contracts of reinsurance and are typical for the Company and for the property and casualty insurance and reinsurance industry in general. Such claims proceedings are considered in connection with the Company's loss and loss expense reserves. Reserves in varying amounts may or may not be established in respect of particular claims proceedings based on many factors, including the legal merits thereof. In addition to litigation relating to insurance and reinsurance claims, the Company and its subsidiaries are subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on insurance or reinsurance policies. This category of business litigation typically involves, among other things, allegations of underwriting errors or misconduct,

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employment claims, regulatory activity, shareholder disputes or disputes arising from business ventures. The status of these legal actions is actively monitored by management.

Legal actions are subject to inherent uncertainties, and future events could change management's assessment of the probability or estimated amount of potential losses from pending or threatened legal actions. Based on available information, it is the opinion of management that the ultimate resolution of pending or threatened legal actions other than claims proceedings, both individually and in the aggregate, will not result in losses having a material adverse effect on the Company's financial position or liquidity at March 31, 2018.

If management believes that, based on available information, it is at least reasonably possible that a material loss (or additional material loss in excess of any accrual) will be incurred in connection with any legal actions other than claims proceedings, the Company discloses an estimate of the possible loss or range of loss, either individually or in the aggregate, as appropriate, if such an estimate can be made, or discloses that an estimate cannot be made. Based on the Company's assessment at March 31, 2018, no such disclosures were considered necessary.

13. Share Capital

(a) Authorized and Issued

Buybacks of Common Shares

On February 17, 2017, XL Group announced that its Board of Directors approved a new share buyback program, authorizing the purchase of up to \$1.0 billion of XL Group shares (the "February 2017 Program"). The Company did not repurchase any shares under the February 2017 Program for the three months ended March 31, 2018. At March 31, 2018, \$529.1 million remained available for purchase under the February 2017 Program.

Other share buybacks, primarily for the purposes of settling employee withholding taxes incurred in connection with the vesting of share-based compensation awards, amounted to \$1.7 million for the three months ended March 31, 2018.

(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, liability-classed cash units, performance units and stock appreciation rights. Share-based compensation granted by the Company generally provides for a vesting period of three or four years and certain awards also provide for 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 19, "Share Capital," to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for further information on the Company's performance incentive programs and associated accounting.

During the three months ended March 31, 2018, the Company granted approximately 0.4 million stock options with a weighted-average grant date fair value of \$10.34 per option. The fair value of the options issued was estimated on the date of grant using the Black-Scholes option pricing model incorporating the following weighted average assumptions:

Dividend yield	2.00	%
Risk free interest rate	2.71	%
Volatility	27.0	%
Expected lives	6.0 years	

During the three months ended March 31, 2018, the Company granted 870 restricted stock awards to certain employees and directors of the Company and its subsidiaries with an aggregate grant date fair value of approximately \$37,514. The restricted stock award recipients have the rights and privileges of a shareholder, including the right to receive dividends that are declared and paid 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 three months ended March 31, 2018, the Company granted approximately 1.2 million equity-classed restricted stock units to certain employees with an aggregate grant date fair value of approximately \$50.9 million. Each equity-classed restricted stock unit represents the Company's obligation to deliver to the holder one common share, and grants may vest in three or four equal installments upon the first, second, third and fourth anniversaries of the date of grant. Equity-classed

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restricted stock units are granted at the closing market price on the day of grant and entitle the holder to receive dividends that are declared and paid in the form of additional common shares contingent upon vesting.

During the three months ended March 31, 2018, the Company granted approximately 0.3 million performance units (representing a potential maximum share payout of approximately 0.6 million common shares) to certain employees with an aggregate grant date fair value of approximately \$13.5 million. 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 relative and absolute financial performance metrics and stated market metrics along with each employee's continued service through the vesting date. 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 that are declared and paid in the form of additional common shares contingent upon vesting.

14. Computation of Earnings Per Common Share and Common Share Equivalents

The following table sets forth the computation of basic and diluted earnings per common share for the three months ended March 31, 2018 and 2017:

(In thousands, except per share amounts)	Three Months Ended March 31,	
	2018	2017
Basic earnings per common share & common share equivalents outstanding:		
Net income (loss) attributable to common shareholders	\$152,648	\$152,843
Weighted average common shares outstanding - basic	256,922	265,690
Basic earnings per common share & common share equivalents outstanding	\$0.59	\$0.58
Diluted earnings per common share & common share equivalents outstanding:		
Weighted average common shares outstanding - basic	256,922	265,690
Impact of share-based compensation	4,254	4,077
Weighted average common shares outstanding - diluted	261,176	269,767
Diluted earnings per common share & common share equivalents outstanding	\$0.58	\$0.57
Dividends per common share	\$0.22	\$0.22

For the three months ended March 31, 2018 and 2017, common shares available for issuance under share-based compensation plans noted in the table below were not included in the calculation of diluted earnings per common share because the assumed exercise or issuance of such shares would be anti-dilutive.

(In millions)	Three Months Ended March 31,	
	2018	2017
Common shares available for issuance under share-based compensation plans	0.6	3.0

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15. Accumulated Other Comprehensive Income (Loss)

The changes in AOCI, net of tax, by component for the three months ended March 31, 2018 and 2017 are as follows:

Three Months Ended March 31, 2018 (U.S. dollars in thousands)	Unrealized Gains (Losses) on Investments (1)	OTTI Losses Recognized in AOCI	Foreign Currency Translation Adjustments	Underfunded Pension Liability	Cash Flow Hedge	Total
Balance, beginning of period, net of tax	\$ 870,478	\$ (43,527)	\$ 83,042	\$ (22,356)	\$ 1,794	\$ 889,431
OCI before reclassifications	(399,792)	—	(3,112)	(223)	—	(403,127)
Amounts reclassified from AOCI	10,875	3,713	—	—	(48)	14,540
Tax benefit (expense)	28,747	(97)	680	34	—	29,364
Net current period OCI - net of tax	(360,170)	3,616	(2,432)	(189)	(48)	(359,223)
Reclassification due to the adoption of ASU 2016-01 (2)	\$ (221,856)	\$ —	\$ —	\$ —	\$ —	\$ (221,856)
Reclassification due to the adoption of ASU 2018-02	\$ 6,357	\$ —	\$ (216)	\$ (2,238)	\$ —	\$ 3,903
Balance, end of period, net of tax	\$ 294,809	\$ (39,911)	\$ 80,394	\$ (24,783)	\$ 1,746	\$ 312,255

Three Months Ended March 31, 2017 (U.S. dollars in thousands)	Unrealized Gains (Losses) on Investments (1)	OTTI Losses Recognized in AOCI	Foreign Currency Translation Adjustments	Underfunded Pension Liability	Cash Flow Hedge	Total
Balance, beginning of period, net of tax	\$ 730,429	\$ (50,952)	\$ 58,970	\$ (24,887)	\$ 1,986	\$ 715,546
OCI before reclassifications	149,959	—	39,204	(341)	—	188,822
Amounts reclassified from AOCI	(52,554)	1,455	—	—	(48)	(51,147)
Tax benefit (expense)	(10,952)	(13)	2,734	(16)	—	(8,247)
Net current period OCI - net of tax	86,453	1,442	41,938	(357)	(48)	129,428
Balance, end of period, net of tax	\$ 816,882	\$ (49,510)	\$ 100,908	\$ (25,244)	\$ 1,938	\$ 844,974

For certain annuity contracts that are subject to the GreyCastle Life Retro Arrangements, future 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"). Upon completion of the GreyCastle Life Retro Arrangements, no further Shadow Adjustments were recorded. At December 31, 2017, the cumulative impact of the Shadow Adjustments was \$184.9 million. During the three months ended March 31, 2018, net movements of \$(4.2) million were recorded, resulting in a total cumulative net impact of Shadow Adjustments on future policy benefit reserves of \$180.8 million at March 31, 2018.

The reclassification out of AOCI due to the adoption of ASU 2016-01 includes \$233.8 million of net unrealized (2) gains less \$11.9 million of deferred tax on net unrealized gains as discussed in Note 1(b), "Significant Accounting Policies - Recent Accounting Pronouncements."

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The reclassifications out of AOCI along with the associated Unaudited Consolidated Statements of Income line items affected by component, and the total related tax (expense) benefit for the three months ended March 31, 2018 and 2017 are as follows:

Gross Amount Reclassified From AOCI

Details About AOCI Components - Affected Line Items in the Unaudited Consolidated Statements of Income (U.S. dollars in thousands)	Three months ended March 31, 2018	Three months ended March 31, 2017
Unrealized gains and losses on investments:		
Net realized gains (losses) on investments AFS	\$17,762	\$(47,020)
OTTI	2,848	6,874
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	(9,735)	(12,408)
Income (loss) from investment affiliates	—	—
Total before tax	\$10,875	\$(52,554)
Provision (benefit) for income tax	(2,002)	(474)
Net of tax	\$8,873	\$(53,028)
OTTI losses recognized in OCI:		
Net realized gains (losses) on investments AFS	\$3,552	\$1,455
OTTI transferred to (from) OCI	161	—
Total before tax	\$3,713	\$1,455
Provision (benefit) for income tax	(97)	(13)
Net of tax	\$3,616	\$1,442
Gains and losses on cash flow hedges:		
Interest Expense	\$(48)	\$(48)
Provision (benefit) for income tax	—	—
Net of tax	\$(48)	\$(48)
Total reclassifications for the period, gross of tax	\$14,540	\$(51,147)
Tax benefit (expense)	(2,099)	(487)
Total reclassifications for the period, net of tax	\$12,441	\$(51,634)

16. Guarantor Financial Information

The following tables present condensed consolidating balance sheets at March 31, 2018 and December 31, 2017, condensed consolidating statements of income and comprehensive income for the three months ended March 31, 2018 and 2017 and condensed consolidating statements of cash flows for the three months ended March 31, 2018 and 2017 for XL Group, XLIT, a 100% owned subsidiary of XL Group, and XL Group's other subsidiaries (excluding XL Group plc ("XL-Ireland")), which are all 100% directly or indirectly owned subsidiaries of XLIT. For purposes of this disclosure, the results of XL-Ireland, which is currently in liquidation proceedings and whose assets are otherwise immaterial, at March 31, 2018 and December 31, 2017 and for the three months ended March 31, 2018 and 2017 have been included within the results of XL Group.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

	March 31, 2018				
Condensed Consolidating Balance Sheet (U.S. dollars in thousands)	XL-Group (1)	XLIT	Other XL Group Subsidiaries	Consolidating Adjustments and Eliminations	XL Group Consolidated
ASSETS					
Investments:					
Fixed maturities AFS	\$—	\$449,368	\$30,207,260	\$—	\$30,656,628
Short-term investments AFS	—	—	500,170	—	500,170
Fixed maturities trading	—	—	2,084,251	—	2,084,251
Short-term investments trading	—	—	7,425	—	7,425
Equity securities	—	—	637,872	—	637,872
Investments in affiliates	—	—	1,900,105	—	1,900,105
Other investments	—	—	1,186,983	—	1,186,983
Total investments	\$—	\$449,368	\$36,524,066	\$—	\$36,973,434
Cash and cash equivalents	20,360	233,948	3,230,455	—	3,484,763
Restricted cash	—	—	155,023	—	155,023
Investments in subsidiaries	9,632,524	13,277,715	—	(22,910,239)	—
Accrued investment income	11	2,133	263,557	—	265,701
Deferred acquisition costs and value of business acquired	—	—	1,317,797	—	1,317,797
Ceded unearned premiums	—	—	2,950,077	—	2,950,077
Premiums receivable	—	—	7,988,469	—	7,988,469
Reinsurance balances receivable	—	—	1,210,620	—	1,210,620
Unpaid losses and loss expenses recoverable	—	—	7,271,013	—	7,271,013
Receivable from investments sold	—	15,000	243,084	—	258,084
Goodwill and other intangible assets	—	—	2,230,506	—	2,230,506
Deferred tax asset	—	—	356,667	—	356,667
Amounts due from subsidiaries/parent	57,632	—	70,582	(128,214)	—
Other assets	1,916	27,611	846,282	—	875,809
Total assets	\$9,712,443	\$14,005,775	\$64,658,198	\$(23,038,453)	\$65,337,963
LIABILITIES AND SHAREHOLDERS'					
EQUITY					
Liabilities:					
Unpaid losses and loss expenses	\$—	\$—	\$29,701,568	\$—	\$29,701,568
Deposit liabilities	—	—	982,963	—	982,963
Future policy benefit reserves	—	—	3,680,958	—	3,680,958
Funds withheld on GreyCastle life retrocession arrangements	—	—	989,140	—	989,140
Unearned premiums	—	—	9,687,293	—	9,687,293
Notes payable and debt	—	3,240,461	—	—	3,240,461
Reinsurance balances payable	—	—	4,432,331	—	4,432,331
Payable for investments purchased	—	—	317,339	—	317,339
Deferred tax liability	—	1,949	56,046	—	57,995
Amounts due to subsidiaries/parent	—	122,328	5,886	(128,214)	—
Other liabilities	83,914	51,592	877,187	—	1,012,693

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Total liabilities	\$83,914	\$3,416,330	\$50,730,711	\$(128,214	) \$54,102,741
Shareholders' Equity:					
Shareholders' equity attributable to XL Group Ltd	\$9,628,529	\$9,632,524	\$13,277,715	\$(22,910,239)	\$9,628,529
Non-controlling interest in equity of consolidated subsidiaries	—	956,921	649,772	—	1,606,693
Total shareholders' equity	\$9,628,529	\$10,589,445	\$13,927,487	\$(22,910,239)	\$11,235,222
Total liabilities and shareholders' equity	\$9,712,443	\$14,005,775	\$64,658,198	\$(23,038,453)	\$65,337,963

(1) Includes XL-Ireland, which was the former ultimate parent and is now in liquidation proceedings. The Company expects the net assets of XL-Ireland to be distributed to XL Group upon completion of the liquidation.

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	December 31, 2017				
Condensed Consolidating Balance Sheet (U.S. dollars in thousands)	XL-Group (1)	XLIT	Other XL Group Subsidiaries	Consolidating Adjustments and Eliminations	XL Group Consolidated
ASSETS					
Investments:					
Fixed maturities AFS	\$—	\$528,152	\$30,400,836	\$—	\$30,928,988
Short-term investments AFS	—	—	815,481	—	815,481
Fixed maturities trading	—	—	2,006,385	—	2,006,385
Short-term investments trading	—	—	14,965	—	14,965
Equity securities	—	—	713,967	—	713,967
Investments in affiliates	—	—	1,911,996	—	1,911,996
Other investments	—	—	1,163,863	—	1,163,863
Total investments	\$—	\$528,152	\$37,027,493	\$—	\$37,555,645
Cash and cash equivalents	3,950	158,688	3,273,316	—	3,435,954
Restricted cash	—	—	157,497	—	157,497
Investments in subsidiaries	9,817,979	13,379,083	—	(23,197,062)	—
Accrued investment income	11	2,436	269,702	—	272,149
Deferred acquisition costs and value of business acquired	—	—	1,102,474	—	1,102,474
Ceded unearned premiums	—	—	2,198,217	—	2,198,217
Premiums receivable	—	—	6,934,482	—	6,934,482
Reinsurance balances receivable	—	—	930,114	—	930,114
Unpaid losses and loss expenses recoverable	—	—	7,247,723	—	7,247,723
Receivable from investments sold	—	—	201,515	—	201,515
Goodwill and other intangible assets	—	—	2,225,751	—	2,225,751
Deferred tax asset	—	—	332,024	—	332,024
Amounts due from subsidiaries/parent	32,301	—	61,976	(94,277)	—
Other assets	14,541	27,244	800,906	—	842,691
Total assets	\$9,868,782	\$14,095,603	\$62,763,190	\$(23,291,339)	\$63,436,236

LIABILITIES AND SHAREHOLDERS'

EQUITY

Liabilities:

Unpaid losses and loss expenses	\$—	\$—	\$29,696,779	\$—	\$29,696,779
Deposit liabilities	—	—	1,042,677	—	1,042,677
Future policy benefit reserves	—	—	3,610,926	—	3,610,926
Funds withheld on GreyCastle life retrocession arrangements	—	—	999,219	—	999,219
Unearned premiums	—	—	8,307,431	—	8,307,431
Notes payable and debt	—	3,220,769	—	—	3,220,769
Reinsurance balances payable	—	—	3,706,116	—	3,706,116
Payable for investments purchased	—	848	332,141	—	332,989
Deferred tax liability	—	—	57,574	—	57,574
Amounts due to subsidiaries/parent	—	62,111	32,166	(94,277)	—
Other liabilities	20,465	36,975	942,996	—	1,000,436

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Total liabilities	\$20,465	\$3,320,703	\$48,728,025	\$(94,277	) \$51,974,916
Shareholders' Equity:					
Shareholders' equity attributable to XL Group Ltd	\$9,848,317	\$9,817,979	\$13,379,083	\$(23,197,062)	\$9,848,317
Non-controlling interest in equity of consolidated subsidiaries	—	956,921	656,082	—	1,613,003
Total shareholders' equity	\$9,848,317	\$10,774,900	\$14,035,165	\$(23,197,062)	\$11,461,320
Total liabilities and shareholders' equity	\$9,868,782	\$14,095,603	\$62,763,190	\$(23,291,339)	\$63,436,236

(1) Includes XL-Ireland, which was the former ultimate parent and is now in liquidation proceedings. The Company expects the net assets of XL-Ireland to be distributed to XL Group upon completion of the liquidation.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidating Statement of Income and Comprehensive Income (U.S. dollars in thousands)	Three Months Ended March 31, 2018				
	XL-Group (1)	XLIT	Other XL Group Subsidiaries	Consolidating Adjustments and Eliminations	XL Group Consolidated
Revenues:					
Net premiums earned	\$—	\$—	\$2,600,288	\$—	\$2,600,288
Total net investment income	8	3,287	215,186	—	218,481
Total realized investment gains (losses)	—	(1,586)	(81,769)	—	(83,355)
Net realized and unrealized gains (losses) on derivative instruments	—	—	4,221	—	4,221
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	—	—	22,921	—	22,921
Income (loss) from investment affiliates	—	—	45,669	—	45,669
Fee income and other	4	—	6,713	—	6,717
Total revenues	\$12	\$1,701	\$2,813,229	\$—	\$2,814,942
Expenses:					
Net losses and loss expenses incurred	\$—	\$—	\$1,622,006	\$—	\$1,622,006
Claims and policy benefits	—	—	10,307	—	10,307
Acquisition costs	—	—	463,827	—	463,827
Operating expenses	30,862	842	440,859	—	472,563
Foreign exchange (gains) losses	1,270	510	8,061	—	9,841
Interest expense	—	40,039	13,506	—	53,545
Total expenses	\$32,132	\$41,391	\$2,558,566	\$—	\$2,632,089
Income (loss) before income tax and income (loss) from operating affiliates	\$(32,120)	\$(39,690)	\$254,663	\$—	\$182,853
Income (loss) from operating affiliates	—	—	10,282	—	10,282
Equity in net earnings (losses) of subsidiaries	184,768	234,278	—	(419,046)	—
Provision (benefit) for income tax	—	—	31,902	—	31,902
Net income (loss)	\$152,648	\$194,588	\$233,043	\$(419,046)	\$161,233
Non-controlling interests	—	9,820	(1,235)	—	8,585
Net income (loss) attributable to common shareholders	\$152,648	\$184,768	\$234,278	\$(419,046)	\$152,648
Comprehensive income (loss)	\$(206,575)	\$(174,455)	\$(124,945)	\$299,400	\$(206,575)

(1) Includes XL-Ireland, which was the former ultimate parent and is now in liquidation proceedings. The Company expects the net assets of XL-Ireland to be distributed to XL Group upon completion of the liquidation.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidating Statement of Income and Comprehensive Income (U.S. dollars in thousands)	Three Months Ended March 31, 2017				
	XL-Group (1)	XLIT	Other XL Group Subsidiaries	Consolidating Adjustments and Eliminations	XL Group Consolidated
Revenues:					
Net premiums earned	\$—	\$—	\$2,522,791	\$—	\$2,522,791
Total net investment income	83	2,313	198,219	(83)	200,532
Total realized investment gains (losses)	—	(777)	38,063	—	37,286
Net realized and unrealized gains (losses) on derivative instruments	—	—	(7,069)	—	(7,069)
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	—	—	(50,101)	—	(50,101)
Income (loss) from investment affiliates	—	—	38,261	—	38,261
Fee income and other	—	—	13,661	—	13,661
Total revenues	\$83	\$1,536	\$2,753,825	\$ (83)	\$2,755,361
Expenses:					
Net losses and loss expenses incurred	\$—	\$—	\$1,583,456	\$—	\$1,583,456
Claims and policy benefits	—	—	7,291	—	7,291
Acquisition costs	—	—	435,869	—	435,869
Operating expenses	16,180	509	451,349	—	468,038
Foreign exchange (gains) losses	176	1	(3,513)	—	(3,336)
Interest expense	—	35,147	15,564	—	50,711
Total expenses	\$16,356	\$35,657	\$2,490,016	\$—	\$2,542,029
Income (loss) before income tax and income (loss) from operating affiliates	\$(16,273)	\$(34,121)	\$263,809	\$ (83)	\$213,332
Income (loss) from operating affiliates	—	—	13,609	—	13,609
Equity in net earnings (losses) of subsidiaries	169,116	239,526	—	(408,642)	—
Provision (benefit) for income tax	—	—	13,092	—	13,092
Net income (loss)	\$152,843	\$205,405	\$264,326	\$ (408,725)	\$213,849
Non-controlling interests	—	36,289	24,800	(83)	61,006
Net income (loss) attributable to common shareholders	\$152,843	\$169,116	\$239,526	\$ (408,642)	\$152,843
Comprehensive income (loss)	\$282,271	\$298,544	\$368,954	\$ (667,498)	\$282,271

(1) Includes XL-Ireland, which was the former ultimate parent and is now in liquidation proceedings. The Company expects the net assets of XL-Ireland to be distributed to XL Group upon completion of the liquidation.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidating Statement of Cash Flows (U.S. dollars in thousands)	Three Months Ended March 31, 2018				
	XL-Group (1)	XLIT	Other XL Group Subsidiaries	Consolidating Adjustments and Eliminations	XL Group Consolidated
Cash flows provided by (used in) operating activities:					
Net cash provided by (used in) operating activities	\$(39,431)	\$38,440	\$(237,133)	\$ —	\$(238,124)
Cash flows provided by (used in) investing activities:					
Proceeds from sale of fixed maturities and short-term investments	\$ —	\$127,615	\$4,241,584	\$ —	\$4,369,199
Proceeds from redemption of fixed maturities and short-term investments	—	37,790	663,614	—	701,404
Proceeds from sale of equity securities	—	—	78,716	—	78,716
Purchases of fixed maturities and short-term investments	—	(107,765)	(4,809,426)	—	(4,917,191)
Purchases of equity securities	—	—	(33,230)	—	(33,230)
Proceeds from sale of affiliates	—	—	244,340	—	244,340
Purchases of affiliates	—	—	(76,014)	—	(76,014)
Returns of capital from subsidiaries	11,000	—	—	(11,000)	—
Other, net	—	—	(26,782)	—	(26,782)
Net cash provided by (used in) investing activities	\$11,000	\$57,640	\$282,802	\$ (11,000)	\$340,442
Cash flows provided by (used in) financing activities:					
Proceeds from issuance of common shares and exercise of stock options	\$46,504	\$ —	\$ —	\$ —	\$46,504
Buybacks of common shares	(1,663)	—	—	—	(1,663)
Employee withholding on share-based compensation	—	—	(16,696)	—	(16,696)
Return of capital	—	(11,000)	—	11,000	—
Distributions to non-controlling interests	—	(9,820)	(6,126)	—	(15,946)
Contributions from non-controlling interests	—	—	439	—	439
Contingent consideration paid on business combination	—	—	(5,000)	—	(5,000)
Deposit liabilities	—	—	(71,124)	—	(71,124)
Net cash provided by (used in) financing activities	\$44,841	\$(20,820)	\$(98,507)	\$11,000	\$(63,486)
Effects of exchange rate changes on foreign currency cash	—	—	7,503	—	7,503
Increase (decrease) in cash, cash equivalents and restricted cash	\$16,410	\$75,260	\$(45,335)	\$ —	\$46,335
Cash, cash equivalents and restricted cash - beginning of year	3,950	158,688	3,430,813	—	3,593,451
Cash, cash equivalents and restricted cash - end of period	\$20,360	\$233,948	\$3,385,478	\$ —	\$3,639,786

(1) Includes XL-Ireland, which was the former ultimate parent and is now in liquidation proceedings. The Company expects the net assets of XL-Ireland to be distributed to XL Group upon completion of the liquidation.

