

XL GROUP PLC
Form 10-Q
August 06, 2010

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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from ____ to ____

Commission file number 1-10804

XL GROUP

Public Limited Company

(Exact name of registrant as specified in its charter)

Ireland
(State or other jurisdiction of
incorporation or organization)

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

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

(Registrant's telephone number, including area code)

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

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

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

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

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

As of August 4, 2010, there were 342,010,919 outstanding Class A Ordinary Shares, \$0.01 par value per share, of the registrant.

XL GROUP PUBLIC LIMITED COMPANY

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

XL CAPITAL LTD

CONSOLIDATED BALANCE SHEETS

	(Unaudited) June 30, 2010	December 31, 2009
<i>(U.S. dollars in thousands, except share amounts)</i>		
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost: 2010, \$27,995,736; 2009, \$28,798,504)	\$ 27,681,839	\$ 27,512,032
Equity securities, at fair value (cost: 2010, \$16,091; 2009, \$12,344)	19,975	17,779
Short-term investments, at fair value (amortized cost: 2010, \$1,544,344; 2009, \$1,767,197)	1,552,301	1,777,360
Total investments available for sale	29,254,115	29,307,171
Fixed maturities, held to maturity at amortized cost (fair value: 2010, \$504,726; 2009, \$530,319)	\$ 468,738	\$ 546,067
Investments in affiliates	1,080,570	1,185,604
Other investments	858,636	783,189
Total investments	31,662,059	31,822,031
Cash and cash equivalents	3,801,194	3,643,697
Accrued investment income	326,297	350,055
Deferred acquisition costs	650,937	654,065
Ceded unearned premiums	783,132	711,875
Premiums receivable	2,756,348	2,597,602
Reinsurance balances receivable	236,054	374,844
Unpaid losses and loss expenses recoverable	3,454,004	3,584,028
Net receivable from investments sold		84,617
Goodwill and other intangible assets	835,865	845,129
Deferred tax asset	169,590	240,425
Other assets	646,939	717,864
Total assets	\$ 45,322,419	\$ 45,626,232
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Unpaid losses and loss expenses	\$ 20,153,892	\$ 20,823,524
Deposit liabilities	2,252,124	2,208,699
Future policy benefit reserves	4,892,612	5,490,119
Unearned premiums	3,842,364	3,651,310
Notes payable and debt	2,467,392	2,451,417
Reinsurance balances payable	327,064	378,887
Net payable for investments purchased	2,522	36,979
Deferred tax liability	82,748	46,557
Other liabilities	722,569	923,650
Total liabilities	\$ 34,743,287	\$ 36,011,142
Commitments and Contingencies		
Redeemable Series C preference ordinary shares, 20,000,000 authorized, par value \$0.01 Issued and outstanding: (2010, 2,876,000; 2009, 7,306,920)	\$ 71,900	\$ 182,673

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Shareholders' Equity:		
Noncontrolling interest in equity of consolidated subsidiaries	\$ 2,228	\$ 2,305
Series E preference ordinary shares, 1,000,000 authorized, par value \$0.01 Issued and outstanding: (2010, 1,000,000; 2009, 1,000,000)	10	10
Class A ordinary shares, 999,990,000 authorized, par value \$0.01 Issued and outstanding: (2010, 342,010,919; 2009, 342,118,986)	3,421	3,421
Additional paid in capital	10,494,675	10,474,688
Accumulated other comprehensive income (loss)	(338,733)	(1,142,467)
Retained earnings	345,631	94,460
	<hr/>	<hr/>
Total shareholders' equity	\$ 10,507,232	\$ 9,432,417
	<hr/>	<hr/>
Total liabilities, redeemable preference ordinary shares and shareholders' equity	\$ 45,322,419	\$ 45,626,232
	<hr/>	<hr/>

See accompanying Notes to Unaudited Consolidated Financial Statements

XL CAPITAL LTD

CONSOLIDATED STATEMENTS OF INCOME

	(Unaudited) Three Months Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2010	2009	2010	2009
<i>(U.S. dollars in thousands, except share amounts)</i>				
Revenues:				
Net premiums earned	\$ 1,302,761	\$ 1,429,700	\$ 2,671,246	\$ 2,881,221
Net investment income	302,594	328,348	610,918	676,314
Realized investment gains (losses):				
Net realized gains (losses) on investments sold	(3,979)	4,520	42	37,623
Other-than-temporary impairments on investments	(26,736)	(115,620)	(87,250)	(400,660)
Other-than-temporary impairments on investments transferred to other comprehensive income	(30,671)	30,670	(10,354)	30,670
Total net realized gains (losses) on investments	(61,386)	(80,430)	(97,562)	(332,367)
Net realized and unrealized gains (losses) on derivative instruments	(19,896)	969	(40,376)	(438)
Net income (loss) from investment fund affiliates	19,084	37,086	27,262	10,193
Fee income and other	9,535	9,824	17,953	21,982
Total revenues	\$ 1,552,692	\$ 1,725,497	\$ 3,189,441	\$ 3,256,905
Expenses:				
Net losses and loss expenses incurred	\$ 747,165	\$ 779,628	\$ 1,639,365	\$ 1,569,911
Claims and policy benefits	123,375	174,588	247,118	332,547
Acquisition costs	180,560	223,272	381,697	441,491
Operating expenses	244,867	264,247	473,975	532,634
Exchange (gains) losses	(32,276)	145,221	(53,359)	120,597
Interest expense	49,149	54,198	98,219	115,539
Loss on termination of guarantee	23,500		23,500	
Amortization of intangible assets	464	464	929	929
Total expenses	\$ 1,336,804	\$ 1,641,618	\$ 2,811,444	\$ 3,113,648
Income (loss) before income tax and income (loss) from operating affiliates	\$ 215,888	\$ 83,879	\$ 377,997	\$ 143,257
Provision for income tax	42,976	16,045	72,812	61,998
Income (loss) from operating affiliates	21,013	17,667	32,619	7,339
Net income	\$ 193,925	\$ 85,501	\$ 337,804	\$ 88,598
Non-controlling interest in net (income) loss of subsidiary	80	40	81	40
Net income attributable to XL Capital Ltd	\$ 194,005	\$ 85,541	\$ 337,885	\$ 88,638
Preference share dividends	(2,194)	(5,592)	(34,694)	(42,126)
Gain on redemption of Series C Preference Ordinary Shares			16,616	211,816
Net income attributable to ordinary shareholders	\$ 191,811	\$ 79,949	\$ 319,807	\$ 258,328
Weighted average ordinary shares and ordinary share equivalents outstanding basic (in thousands)	342,056	342,154	342,049	339,155
Weighted average ordinary shares and ordinary share equivalents outstanding diluted (in thousands)	342,878	342,468	342,781	339,262

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Earnings per ordinary share and ordinary share equivalent - basic	\$ 0.56	\$ 0.23	\$ 0.93	\$ 0.76
Earnings per ordinary share and ordinary share equivalent - diluted	\$ 0.56	\$ 0.23	\$ 0.93	\$ 0.76

See accompanying Notes to Unaudited Consolidated Financial Statements

XL CAPITAL LTD

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	(Unaudited) Three Months Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2010	2009	2010	2009
<i>(U.S. dollars in thousands)</i>				
Net income attributable to XL Capital Ltd	\$ 194,005	\$ 85,541	\$ 337,885	\$ 88,638
Impact of adoption of new authoritative other-than-temporary (OTTI) guidance, net of tax		(229,670)		(229,670)
Change in net unrealized gains (losses) on investments, net of tax	324,308	1,115,165	880,332	326,480
Change in other-than-temporary impairment losses recognized in other comprehensive income, net of tax	48,095	(25,595)	31,637	(25,595)
Change in underfunded pension liability	85	(250)	3,567	(316)
Change in value of cash flow hedge	110	110	220	218
Foreign currency translation adjustments, net	(75,823)	184,893	(108,308)	89,639
Change in net unrealized gain (loss) on future policy benefit reserves	(962)	(5,487)	(3,714)	2,007
Comprehensive income (loss)	\$ 489,818	\$ 1,124,707	\$ 1,141,619	\$ 251,401

See accompanying Notes to Unaudited Consolidated Financial Statements

XL CAPITAL LTD

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	(Unaudited) Six Months Ended June 30,	
	2010	2009
<i>(U.S. dollars in thousands)</i>		
Noncontrolling Interest in Equity of Consolidated Subsidiaries:		
Balance beginning of year	\$ 2,305	\$ 1,598
Non-controlling interest share in net income (loss) of subsidiary	(81)	\$ (40)
Non-controlling interest share in change in accumulated other comprehensive (income) loss	4	816
Balance end of period	\$ 2,228	\$ 2,374
Series E Preference Ordinary Shares:		
Balance beginning of year	\$ 10	\$ 10
Balance end of period	\$ 10	\$ 10
Class A Ordinary Shares:		
Balance beginning of year	\$ 3,421	\$ 3,308
Issuance of Class A ordinary shares		115
Exercise of stock options	1	1
Repurchase of shares	(1)	(2)
Balance end of period	\$ 3,421	\$ 3,422
Additional Paid in Capital:		
Balance beginning of year	\$ 10,474,688	\$ 9,792,371
Issuance of Class A ordinary shares	1,095	742,258
Repurchase of Class A ordinary shares	(1,840)	
Dividends on Class A ordinary shares		(68,390)
Dividends on preference ordinary shares		(42,126)
Exercise of stock options, net of tax benefit	104	
Share based compensation expense	20,628	30,869
Balance end of period	\$ 10,494,675	\$ 10,454,982
Accumulated Other Comprehensive Income (Loss):		
Balance beginning of year	\$ (1,142,467)	\$ (3,364,927)
Impact of adoption of new authoritative OTTI guidance, net of taxes		(229,670)
Change in net unrealized (losses) on investment portfolio, net of tax	863,940	319,960
Change in net unrealized (losses) gains on affiliate and other investments, net of tax	16,392	6,520
Change in OTTI losses recognized in other comprehensive income, net of tax	31,637	(25,595)
Change in underfunded pension liability	3,567	(316)
Change in value of cash flow hedge	220	218
Foreign currency translation adjustments	(108,308)	89,639
Change in net unrealized gain (loss) on future policy benefit reserves	(3,714)	2,007
Balance end of period	\$ (338,733)	\$ (3,202,164)
Retained Earnings (Deficit):		
Balance beginning of year	\$ 94,460	\$ (315,529)
Impact of adoption of new authoritative OTTI guidance, net of taxes		229,670

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Net income attributable to XL Capital Ltd	337,885	88,638
Dividends on Series E preference ordinary shares	(34,694)	
Dividends on Class A ordinary shares	(68,636)	
Gain on redemption of Series C preference ordinary shares	16,616	211,816
	<u> </u>	<u> </u>
Balance end of period	\$ 345,631	\$ 214,595
	<u> </u>	<u> </u>
Total Shareholders Equity	\$ 10,507,232	\$ 7,473,219
	<u> </u>	<u> </u>

See accompanying Notes to Unaudited Consolidated Financial Statements

XL CAPITAL LTD

CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Unaudited) Six Months Ended June 30,	
	2010	2009
<i>(U.S. dollars in thousands)</i>		
Cash flows (used in) provided by operating activities:		
Net income attributable to XL Capital Ltd	\$ 337,885	\$ 88,638
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Net realized losses on sales of investments	97,562	332,367
Net realized and unrealized losses on derivative instruments	40,376	438
Amortization of premiums (discounts) on fixed maturities	20,396	(18,267)
(Income) loss from investment and operating affiliates	(59,881)	(17,532)
Amortization of deferred compensation	15,586	19,713
Accretion of convertible debt	500	496
Accretion of deposit liabilities	51,229	23,306
Unpaid losses and loss expenses	(139,971)	(328,569)
Future policy benefit reserves	(124,805)	(45,102)
Unearned premiums	321,433	(13,572)
Premiums receivable	(300,119)	(154,816)
Unpaid losses and loss expenses recoverable	61,732	121,547
Ceded unearned premiums	(95,083)	(51,718)
Reinsurance balances receivable	132,088	165,926
Deferred acquisition costs	(21,706)	(21,422)
Reinsurance balances payable	(34,782)	(252,006)
Deferred tax asset	51,008	(26,375)
Other assets	55,262	(42,857)
Other liabilities	(155,048)	(253,383)
Other	117,365	(47,780)
Total adjustments	\$ 33,142	\$ (609,606)
Net cash provided by (used in) operating activities	\$ 371,027	\$ (520,968)
Cash flows provided by (used in) investing activities:		
Proceeds from sale of fixed maturities and short-term investments	\$ 2,386,683	\$ 5,140,997
Proceeds from redemption of fixed maturities and short-term investments	1,438,725	2,119,654
Proceeds from sale of equity securities	37,344	353,600
Purchases of fixed maturities and short-term investments	(3,850,644)	(7,467,848)
Purchases of equity securities	(41,026)	(18,339)
Net dispositions of investment affiliates	174,179	597,852
Other investments, net	(8,728)	(25,014)
Net cash provided by (used in) investing activities	\$ 136,533	\$ 700,902
Cash flows (used in) financing activities:		
Proceeds from issuance of Class A ordinary shares	\$	\$ 745,000
Repurchase of Class A ordinary shares	(1,840)	(541)
Redemption of Series C preference ordinary shares	(94,157)	(104,718)
Dividends paid on Class A ordinary shares	(68,398)	(68,372)
Dividends paid on preference ordinary shares	(38,073)	(50,178)
Deposit liabilities	(64,120)	(138,976)
Repayment of debt		(745,000)
Collateral received on securities lending		108,906
Collateral returned on securities lending		(351,568)

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Net cash (used in) financing activities	\$ (266,588)	\$ (605,447)
Effects of exchange rate changes on foreign currency cash	(83,475)	61,059
Increase (decrease) in cash and cash equivalents	157,497	(364,454)
Cash and cash equivalents beginning of period	3,643,697	4,353,826
Cash and cash equivalents end of period	\$ 3,801,194	\$ 3,989,372

See accompanying Notes to Unaudited Consolidated Financial Statements

XL CAPITAL LTD

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation and Consolidation

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

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

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

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

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

2. Significant Accounting Policies

(a) Recent Accounting Pronouncements

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

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

XL CAPITAL LTD

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Significant Accounting Policies (Continued)

(a) Recent Accounting Pronouncements (Continued)

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

In March 2010, the FASB issued authoritative guidance relating to derivative accounting. Under this guidance, all entities that enter into contracts containing an embedded credit derivative feature related to the transfer of credit risk that is not in the form of subordination of one financial instrument to another will be affected. The guidance clarifies that the embedded credit derivative scope exception found in existing derivative guidance does not apply to such contracts. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. This guidance will be effective and applied as of July 1, 2010. The Company has investments in senior tranches of Synthetic Collateralized Debt Obligations (CDO) as well as certain CDOs of CDO structures that hold credit default swap contracts rather than direct credit exposures. The derivative instruments held within these structures are impacted by this new guidance. The Company holds Synthetic CDOs and CDOs of CDO structures with an amortized cost of \$75.3 million and net unrealized losses of \$32.1 million as of June 30, 2010. Upon initial adoption of this guidance the Company will elect to apply the fair value option for impacted securities. This is expected to result in a decrease to opening retained earnings of approximately \$32.1 million. Subsequent to July 1, 2010, the changes in fair value of these securities will be recorded in earnings.

3. Fair Value Measurements

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

XL CAPITAL LTD

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Fair Value Measurements (Continued)

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

June 30, 2010 <i>(U.S. dollars in thousands)</i> <i>(Unaudited)</i>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Collateral and Counterparty Netting	Balance as of June 30, 2010
Assets					
U.S. Government and Government-Related/Supported Corporate (1)	\$	\$ 2,491,906	\$	\$	\$ 2,491,906
Residential mortgage-backed securities Agency		10,663,540	39,676		10,703,216
Residential mortgage-backed securities Non-Agency		5,935,953	1,226		5,937,179
Commercial mortgage-backed securities Collateralized debt obligations		1,321,593	10,008		1,331,601
Other asset-backed securities U.S. States and political subdivisions of the States		1,259,407	427		1,259,834
Non-U.S. Sovereign Government, Supranational and Government-Related		12,678	686,767		699,445
		1,165,261	22,521		1,187,782
		1,140,876			1,140,876
		2,926,818	3,182		2,930,000
Total fixed maturities, at fair value	\$	\$ 26,918,032	\$ 763,807	\$	\$ 27,681,839
Equity securities, at fair value	8,042	11,933			19,975
Short-term investments, at fair value (2)		1,547,220	5,081		1,552,301
Total investments available for sale	\$ 8,042	\$ 28,477,185	\$ 768,888	\$	\$ 29,254,115
Cash equivalents (3)	1,979,540	726,341			2,705,881
Other investments (4)		402,916	92,857		495,773
Other assets (5)(6)		156,701	252,921	(305,253)	104,369
Total assets accounted for at fair value	\$ 1,987,582	\$ 29,763,143	\$ 1,114,666	\$ (305,253)	\$ 32,560,138
Liabilities					
Financial instruments sold, but not yet purchased (7)	\$	\$ 29,008	\$	\$	\$ 29,008
Other liabilities (5)(6)		17,993	90,010	(56,976)	51,027
Total liabilities accounted for at fair value	\$	\$ 47,001	\$ 90,010	\$ (56,976)	\$ 80,035

XL CAPITAL LTD

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Fair Value Measurements (Continued)

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

(1) Included within Corporate are certain floating rate medium term notes supported primarily by pools of European credit with varying degrees of leverage. The notes have a fair value of \$552.6 million and \$587.7 million and an amortized cost of \$620.2 million and \$707.9 million at June 30, 2010 and December 31, 2009, respectively. These notes allow the investor to participate in cash flows of the underlying bonds including certain residual values, which could serve to either decrease or increase the ultimate values of these notes.

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

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- (3) Cash equivalents balances subject to fair value measurement include certificates of deposit and money market funds. Operating cash balances are not subject to fair value measurement guidance.
- (4) The Other investments balance excludes certain structured transactions including certain investments in project finance transactions, a payment obligation and liquidity financing provided to a structured credit vehicle as a part of a third party medium term note facility. These investments are carried at amortized cost that totaled \$362.9 million at June 30, 2010 and \$365.6 million at December 31, 2009.
- (5) Other assets and other liabilities include derivative instruments.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Fair Value Measurements (Continued)

- (6) The derivative balances included in each category above are reported on a gross basis by level with a netting adjustment presented separately in the Collateral and Counterparty Netting column. The Company often enters into different types of derivative contracts with a single counterparty and these contracts are covered under a netting agreement. In addition, the Company held net cash collateral related to derivative assets of approximately \$254.2 million and \$169.1 million at June 30, 2010 and December 31, 2009, respectively. This balance is included within cash and cash equivalents and the corresponding liability to return the collateral has been offset against the derivative asset within the balance sheet as appropriate under the netting agreement. The fair value of the individual derivative contracts are reported gross in their respective levels based on the fair value hierarchy.
- (7) Financial instruments sold, but not yet purchased represent short sales and are included within Net payable for investments purchased on the balance sheet. *Level 3 Gains and Losses*

The tables below present additional information about assets and liabilities measured at fair value on a recurring basis and for which Level 3 inputs were utilized to determine fair value. The table reflects gains and losses for the three and six month periods ended June 30, 2010 and June 30, 2009 for all financial assets and liabilities categorized as Level 3 as of June 30, 2010 and June 30, 2009, respectively. The tables do not include gains or losses that were reported in Level 3 in prior periods for assets that were transferred out of Level 3 prior to June 30, 2010 and June 30, 2009. Gains and losses for assets and liabilities classified within Level 3 in the table below may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). Further, it should be noted that the following tables do not take into consideration the effect of offsetting Level 1 and 2 financial instruments entered into by the Company that 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 the values were obtained from brokers where either significant inputs were utilized in determining the value that were difficult to corroborate with observable market data, or sufficient information regarding the specific inputs utilized by the broker was not available to support a Level 2 classification. Level 3 assets also include securities for which the Company determined that current market trades represent distressed transactions, and accordingly, the Company determined fair value using certain inputs that are not observable to market participants. Transfers into or out of Level 3 primarily arise as a result of the valuations utilized by the Company changing between those provided by independent pricing services that do not contain significant unobservable inputs, and other valuations sourced from either brokers or in limited instances from internal models for certain assets, which are considered Level 3.

There were no transfers between Level 1 and Level 2 during the six month periods ending June 30, 2010 and 2009.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Fair Value Measurements (Continued)

Level 3 Gains and Losses (continued)

	Level 3 Assets and Liabilities Three Months Ended June 30, 2010					
	Corporate	Residential mortgage-backed securities Agency	Residential mortgage-backed securities Agency	Non mortgage-backed securities	Commercial mortgage-backed securities	Collateralized debt obligations
<i>(U.S. dollars in thousands)</i> <i>(Unaudited)</i>						
Balance, beginning of period	\$ 9,493	\$	\$ 30,000	\$ 41,655	\$ 711,749	
Realized gains (losses)	117		(2,681)	(286)	(7,930)	
Movement in unrealized gains (losses)	33		474	(60)	(13,889)	
Purchases, sales issuances and settlements, net	22,687	1,226	(1,748)		(467)	
Transfers into Level 3	12,146		7,201			
Transfers out of Level 3	(4,800)		(23,238)	(40,882)	(1,280)	
Fixed maturities to short-term investments classification change					(1,416)	
Balance, end of period	\$ 39,676	\$ 1,226	\$ 10,008	\$ 427	\$ 686,767	
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 316	\$	\$ 340	\$ (54)	\$ (15,385)	

	Level 3 Assets and Liabilities Three Months Ended June 30, 2010 (Continued)				
	Other asset backed securities	Non-U.S. Sovereign Government and Supranationals and Government Related	Short-term Investments	Other investments	Derivative Contracts - Net
<i>(U.S. dollars in thousands)</i> <i>(Unaudited)</i>					
Balance, beginning of period	\$ 52,082	\$ 3,242	\$ 6,566	\$ 83,088	\$ 104,474
Realized gains (losses)	(7,742)		(1,146)	2,565	
Movement in unrealized gains (losses)	5,490	(60)	(160)	1,567	53,027
Purchases, sales issuances and settlements, net	(75)		(717)	5,637	5,410
Transfers into Level 3					
Transfers out of Level 3	(27,234)		(878)		
Fixed maturities to short-term investments classification change			1,416		
Balance, end of period	\$ 22,521	\$ 3,182	\$ 5,081	\$ 92,857	\$ 162,911
	\$ (3,221)	\$ (60)	\$ (58)	\$ 1,567	\$ 53,027

Movement in total gains (losses)
above relating to instruments still
held at the reporting date

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Fair Value Measurements (Continued)

Level 3 Gains and Losses (continued)

(U.S. dollars in thousands) (Unaudited)	Level 3 Assets and Liabilities Six Months Ended June 30, 2010				
	Corporate	Residential mortgage-backed securities Agency	Residential mortgage-backed securities Non Agency	Commercial mortgage-backed securities	Collateralized debt obligations
Balance, beginning of period	\$ 10,311	\$ 7,894	\$ 42,190	\$ 2,755	\$ 190,663
Realized gains (losses)	(4,438)		(5,674)	(209)	(13,174)
Movement in unrealized gains (losses)	480		706	16	16,636
Purchases, sales issuances and settlements, net	22,140	1,226	(844)	(706)	(14)
Transfers into Level 3	14,951		8,433		495,734
Transfers out of Level 3	(3,768)	(7,894)	(34,803)	(1,429)	(1,356)
Fixed maturities to short-term investments classification change					(1,722)
Balance, end of period	\$ 39,676	\$ 1,226	\$ 10,008	\$ 427	\$ 686,767
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 599	\$	\$ 405	\$ (151)	\$ 15,574

(U.S. dollars in thousands) (Unaudited)	Level 3 Assets and Liabilities Six Months Ended June 30, 2010 (Continued)				
	Other asset backed securities	Non-U.S. Sovereign Government and Supranationals and Government Related	Short-term Investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	\$ 38,179	\$ 3,217	\$ 6,486	\$ 75,584	\$ 100,515
Realized gains (losses)	(14,082)		(4,502)	2,565	
Movement in unrealized gains (losses)	9,236	(102)	2,512	5,552	51,637
Purchases, sales issuances and settlements, net	4,437		(2,124)	9,156	10,759
Transfers into Level 3	204	67	987		
Transfers out of Level 3	(15,453)				
Fixed maturities to short-term investments classification change			1,722		
Balance, end of period	\$ 22,521	\$ 3,182	\$ 5,081	\$ 92,857	\$ 162,911
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ (1,168)	\$ (102)	\$ 2,193	\$ 5,552	\$ 51,637

XL CAPITAL LTD

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Fair Value Measurements (Continued)

Level 3 Gains and Losses (continued)

(U.S. dollars in thousands) (Unaudited)	Level 3 Assets and Liabilities Three Months Ended June 30, 2009				
	Corporate	Residential mortgage-backed securities Agency	Commercial mortgage-backed securities	Collateralized debt obligations	Other asset backed securities
Balance, beginning of period	\$ 31,146	\$ 19,270	\$ 34,933	\$ 429,460	\$ 61,794
Realized gains (losses)	(1,224)	(749)	(1,069)	(8,916)	507
Movement in unrealized gains (losses)	3,545	2,631	(670)	102,377	(4,509)
Purchases, sales issuances and settlements, net	(2,223)		(57)	(915)	
Transfers into Level 3	1,974	174	166	993	7
Transfers out of Level 3	(11,716)	(2,388)	(14)	(19,831)	(14,458)
Fixed maturities to short-term investments classification change	(40)				
Balance, end of period	\$ 21,462	\$ 18,938	\$ 33,289	\$ 503,168	\$ 43,341
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 2,425	\$ 2,091	\$ (734)	\$ 89,027	\$ (4,886)

(U.S. dollars in thousands) (Unaudited)	Level 3 Assets and Liabilities Three Months Ended June 30, 2009 (continued)			
	Non-U.S. Sovereign Government	Short-term Investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	\$ 45,719	\$ 13,830	\$ 64,391	\$ 186,448
Realized gains (losses)	912	(4,167)		2,823
Movement in unrealized gains (losses)	847	7,348	1,720	(73,454)
Purchases, sales issuances and settlements, net	15,975	471	(977)	4,918
Transfers into Level 3		188		
Transfers out of Level 3	(17,960)	(4)		
Fixed maturities to short-term investments classification change	(2,908)	2,948		
Balance, end of period	\$ 42,585	\$ 20,614	\$ 65,134	\$ 120,735
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ (775)	\$ 5,485	\$ 1,720	\$ (73,454)

XL CAPITAL LTD

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Fair Value Measurements (Continued)

Level 3 Gains and Losses (continued)

(U.S. dollars in thousands) (Unaudited)	Level 3 Assets and Liabilities Six Months Ended June 30, 2009				
	Corporate	Residential mortgage-backed securities Agency	Commercial mortgage-backed securities	Collateralized debt obligations	Other asset backed securities
Balance, beginning of period	\$ 62,506	\$ 37,150	\$ 43,811	\$ 598,110	\$ 121,150
Realized gains (losses)	(5,514)	(2,621)	(4,294)	(29,518)	(2,570)
Movement in unrealized gains (losses)	6,042	2,116	7,551	(19,525)	(6,789)
Purchases, sales issuances and settlements, net	(4,071)	641	(5,260)	(11,826)	(5,481)
Transfers into Level 3	1,455	200	3,082	1,044	2
Transfers out of Level 3	(38,256)	(18,548)	(11,601)	(35,117)	(62,971)
Fixed maturities to short-term investments classification change	(700)				
Balance, end of period	\$ 21,462	\$ 18,938	\$ 33,289	\$ 503,168	\$ 43,341
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ 4,073	\$ 1,970	\$ 5,741	\$ (36,681)	\$ (9,476)

(U.S. dollars in thousands) (Unaudited)	Level 3 Assets and Liabilities Six Months Ended June 30, 2009 (continued)			
	Non-U.S. Sovereign Government	Short-term Investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	\$ 89,152	\$ 20,746	\$ 65,354	\$ 226,818
Realized gains (losses)		(2,827)		2,823
Movement in unrealized gains (losses)	(1,192)	3,684	(5,898)	(118,803)
Purchases, sales issuances and settlements, net	16,395	(5,073)	5,678	9,897
Transfers into Level 3		418		
Transfers out of Level 3	(58,804)			
Fixed maturities to short-term investments classification change	(2,966)	3,666		
Balance, end of period	\$ 42,585	\$ 20,614	\$ 65,134	\$ 120,735
Movement in total gains (losses) above relating to instruments still held at the reporting date	\$ (1,026)	\$ 2,700	\$ (5,898)	\$ (118,803)

XL CAPITAL LTD

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Fair Value Measurements (Continued)

Fixed maturities and short-term investments

During the six months ended June 30, 2010, certain CDOs that were previously classified as Level 2 due to sufficient market data being available to allow a price to be determined and provided by third party pricing vendors, were transferred to Level 3 because third party vendor prices were no longer believed to be the most appropriate pricing source, therefore, broker quotes are the primary source of the valuations for these CDOs.

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

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

Other investments

Included within the Other Investments component of the Company's Level 3 valuations are private investments and alternatives where the Company is not deemed to have significant influence over the investee. The fair value of these investments is based upon net asset values received from the investment manager or general partner of the respective entity. The nature of the underlying investments held by the investee which form the basis of the net asset value include assets such as private business ventures and are such that significant Level 3 inputs are utilized in the determination of the individual underlying holding values and accordingly the fair value of the Company's investment in each entity is classified within Level 3. The Company also incorporates factors such as the most recent financial information received, the values at which capital transactions with the investee take place, and management's judgment regarding whether any adjustments should be made to the net asset value in recording the fair value of each position. Investments in private equity and alternative funds included in Other investments utilize strategies including Arbitrage, Directional, Event Driven and Multi-style. These funds potentially have lockup and gate provisions which may limit redemption liquidity. For further details regarding the nature of Other investments and related features see Item 8, Note 11, Other Investments to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Derivative instruments

Derivative instruments classified within Level 3 include: (i) certain interest rate swaps where the duration of the contract the Company holds exceeds that of the longest term on a market observable input, (ii) GMIB benefits embedded within a certain reinsurance contract, (iii) a put option included within the Company's remaining contingent capital facility and (iv) credit derivatives sold providing protection on senior tranches of structured finance transactions where the value is obtained directly from the investment bank counterparty for which sufficient information regarding the inputs utilized in the valuation was not obtained to support a Level 2 classification. The majority of inputs utilized in the valuations of these types of derivative contracts are considered Level 1 or Level 2; however, each valuation includes at least one Level 3 input that was significant to the valuation and accordingly the values are disclosed within Level 3.

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

XL CAPITAL LTD

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Fair Value Measurements (Continued)

Financial Instruments Not Carried at Fair Value

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

<i>(U.S. dollars in thousands)</i> <i>(Unaudited)</i>	As of June 30, 2010		As of December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed maturities, held to maturity	\$ 468,738	\$ 504,726	\$ 546,067	\$ 530,319
Other investments structured transactions	\$ 362,862	\$ 345,095	\$ 365,600	\$ 341,352
Financial Assets	\$ 831,600	\$ 849,821	\$ 911,667	\$ 871,671
Deposit liabilities	\$ 2,252,124	\$ 2,233,725	\$ 2,208,699	\$ 2,245,961
Notes payable and debt	2,467,392	2,469,786	2,451,417	2,504,386
Financial Liabilities	\$ 4,719,516	\$ 4,703,511	\$ 4,660,116	\$ 4,750,347
Redeemable series C preference ordinary shares	\$ 71,900	\$ 49,611	\$ 182,673	\$ 137,918

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

Deposit liabilities include obligations under structured insurance and reinsurance transactions as well as funding agreements issued. For purposes of fair value disclosures, the Company determines the fair value of the deposit liabilities by assuming a discount rate equal to the appropriate U.S. Treasury rate plus 223.8 basis points and the appropriate U.S. Treasury Rate plus 108.3 basis points at June 30, 2010 and December 31, 2009, respectively, to determine the present value of projected contractual liability payments through final maturity. The discount rate incorporates the Company's own credit risk into the determination of estimated fair value.

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

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

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

XL CAPITAL LTD

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Segment Information

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

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

Three months ended June 30, 2010:

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

(Unaudited)

	Insurance	Reinsurance	Total P&C	Life Operations	Corporate	Total
Gross premiums written	\$ 1,085,740	\$ 421,340	\$ 1,507,080	\$ 92,838	\$	\$ 1,599,918
Net premiums written	757,424	357,180	1,114,604	86,094		1,200,698
Net premiums earned	868,666	347,647	1,216,313	86,448		1,302,761
Net losses and loss expenses	592,184	154,981	747,165	123,375		870,540
Acquisition costs	92,236	75,572	167,808	12,752		180,560
Operating expenses (1)	163,005	43,662	206,667	2,765		209,432
Underwriting profit (loss)	\$ 21,241	73,432	94,673	(52,444)		42,229
Net investment income			205,346	75,389		280,735
Net results from structured products (2)	2,940	5,776	8,716		3,086	11,802
Net fee income and other (3)	(4,337)	575	(3,762)	114		(3,648)
Net realized gains (losses) on investments			(55,876)	(5,445)	(65)	(61,386)
Contribution from P&C, Life Operations and Corporate			249,097	17,614	3,021	269,732
Corporate & other:						
Net realized & unrealized gains (losses) on derivative instruments					(19,896)	(19,896)
Net income (loss) from financial, investments and other operating affiliates					40,097	40,097
Exchange (gains) losses					(32,276)	(32,276)
Corporate operating expenses					22,793	22,793
Interest expense (4)					38,551	38,551
Non-controlling interest in net (income) loss of subsidiary					80	80
Loss on termination of guarantee					23,500	23,500
Income taxes & other					43,440	43,440
Net income attributable to XL Capital Ltd						\$ 194,005
Ratios P&C operations: (5)						
Loss and loss expense ratio	68.2%	44.6%	61.4%			
Underwriting expense ratio	29.4%	34.3%	30.8%			

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Combined ratio	97.6%	78.9%	92.2%
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Notes:

- (1) Operating expenses exclude Corporate operating expenses, shown separately.
- (2) The net results from P&C and Corporate structured products include net investment income, interest expense and operating expenses of \$17.2 million, \$9.9 million and \$1.4 million (credit) and \$4.7 million, \$0.7 million and \$0.9 million, respectively.
- (3) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business and expenses related to the cost of an endorsement facility with National Indemnity Company.
- (4) Interest expense excludes interest expense related to deposit liabilities recorded in the Insurance and Reinsurance segments and Corporate.
- (5) Ratios are based on net premiums earned from P&C operations.

XL CAPITAL LTD

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Segment Information (Continued)

Three months ended June 30, 2009:

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

	Insurance	Reinsurance	Total P&C	Life Operations	Corporate (6)	Total
Gross premiums written	\$ 1,124,220	\$ 376,970	\$ 1,501,190	\$ 150,711	\$	\$ 1,651,901
Net premiums written	766,606	311,672	1,078,278	140,674		1,218,952
Net premiums earned	881,490	400,259	1,281,749	147,951		1,429,700
Net losses and loss expenses	598,784	180,844	779,628	174,588		954,216
Acquisition costs	112,430	85,302	197,732	25,540		223,272
Operating expenses (1)	167,931	47,019	214,950	4,269		219,219
Underwriting profit (loss)	\$ 2,345	87,094	89,439	(56,446)		32,993
Net investment income			218,490	82,855		301,345
Net results from structured products (2)	4,093	6,172	10,265		5,019	15,284
Net fee income and other (3)	(3,220)	545	(2,675)	123		(2,552)
Net realized gains (losses) on investments			(34,570)	(51,663)	5,803	(80,430)
Contribution from P&C, Life Operations and Corporate			280,949	(25,131)	10,822	266,640
Corporate & other:						
Net realized & unrealized gains (losses) on derivative instruments					969	969
Net income (loss) from financial, investments and other operating affiliates					54,753	54,753
Exchange (gains) losses					145,221	145,221
Corporate operating expenses					32,219	32,219
Interest expense (4)					42,912	42,912
Non-controlling interest in net (income) loss of subsidiary					40	40
Income taxes & other					16,509	16,509
Net income attributable to XL Capital Ltd						\$ 85,541

Ratios P&C operations: (5)

Loss and loss expense ratio	67.9%	45.2%	60.8%
Underwriting expense ratio	31.8%	33.0%	32.2%
Combined ratio	99.7%	78.2%	93.0%

Notes:

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

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- (2) The net results from P&C and Corporate structured products include net investment income, interest expense and operating expenses of \$19.4 million, \$9.1 million and nil and \$7.6 million, \$2.2 million and \$0.4 million, respectively.
- (3) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business and expenses related to the cost of an endorsement facility with National Indemnity Company.
- (4) Interest expense excludes interest expense related to deposit liabilities recorded in the Insurance and Reinsurance segments and Corporate.
- (5) Ratios are based on net premiums earned from P&C operations.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Segment Information (Continued)

Six months ended June 30, 2010:

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

(Unaudited)

	Insurance	Reinsurance	Total P&C	Life Operations	Corporate (6)	Total
Gross premiums written	\$ 2,217,630	\$ 1,211,763	\$ 3,429,393	\$ 205,739	\$	\$ 3,635,132
Net premiums written	1,658,688	1,052,441	2,711,129	190,760		2,901,889
Net premiums earned	1,765,677	714,237	2,479,914	191,332		2,671,246
Net losses and loss expenses	1,240,503	398,862	1,639,365	247,118		1,886,483
Acquisition costs	202,378	148,177	350,555	31,142		381,697
Operating expenses (1)	316,241	85,690	401,931	5,773		407,704
Underwriting profit (loss)	\$ 6,555	81,508	88,063	(92,701)		(4,638)
Net investment income			409,260	155,733		564,993
Net results from structured products (2)	8,579	8,252	16,831		6,739	23,570
Net fee income and other (3)	(8,123)	894	(7,229)	154		(7,075)
Net realized gains (losses) on investments			(84,453)	(9,858)	(3,251)	(97,562)
Contribution from P&C, Life Operations and Corporate			422,472	53,328	3,488	479,288
Corporate & other:						
Net realized & unrealized gains (losses) on derivative instruments					(40,376)	(40,376)
Net income (loss) from financial, investments and other operating affiliates					59,881	59,881
Exchange (gains) losses					(53,359)	(53,359)
Corporate operating expenses					41,656	41,656
Interest expense (4)					75,451	75,451
Non-controlling interest in net (income) loss of subsidiary					81	81
Loss on termination of guarantee					23,500	23,500
Income taxes & other					73,741	73,741
Net income attributable to XL Capital Ltd						\$ 337,885

Ratios P&C operations: (5)

Loss and loss expense ratio	70.3%	55.8%	66.1%
Underwriting expense ratio	29.3%	32.8%	30.3%
Combined ratio	99.6%	88.6%	96.4%

Notes:

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

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- (2) The net results from P&C and Corporate structured products include net investment income, interest expense and operating expenses of \$36.9 million, \$21.4 million and \$1.3 million (credit) and \$9.0 million, \$1.3 million and \$0.9 million, respectively.
- (3) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business and expenses related to the cost of an endorsement facility with National Indemnity Company.
- (4) Interest expense excludes interest expense related to deposit liabilities recorded in the Insurance and Reinsurance segments and Corporate.
- (5) Ratios are based on net premiums earned from P&C operations.

XL CAPITAL LTD

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Segment Information (Continued)

Six months ended June 30, 2009:

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

(Unaudited)

	Insurance	Reinsurance	Total P&C	Life Operations	Corporate (6)	Total
Gross premiums written	\$ 2,215,465	\$ 1,163,953	\$ 3,379,418	\$ 285,823	\$	\$ 3,665,241
Net premiums written	1,598,774	984,815	2,583,589	262,259		2,845,848
Net premiums earned	1,791,601	811,835	2,603,436	277,785		2,881,221
Net losses and loss expenses	1,213,998	355,913	1,569,911	332,547		1,902,458
Acquisition costs	217,842	181,026	398,868	42,623		441,491
Operating expenses (1)	347,259	94,107	441,366	8,110		449,476
Underwriting profit (loss)	\$ 12,502	180,789	193,291	(105,495)		87,796
Net investment income			460,656	160,377		621,033
Net results from structured products (2)	7,214	14,596	21,810		9,664	31,474
Net fee income and other (3)	(4,220)	2,596	(1,624)	174		(1,450)
Net realized gains (losses) on investments			(197,383)	(126,313)	(8,671)	(332,367)
Contribution from P&C, Life Operations and Corporate			476,750	(71,257)	993	406,486
Corporate & other:						
Net realized & unrealized gains (losses) on derivative instruments					(438)	(438)
Net income (loss) from financial, investments and other operating affiliates					17,532	17,532
Exchange (gains) losses					120,597	120,597
Corporate operating expenses					58,931	58,931
Interest expense (4)					92,527	92,527
Non-controlling interest in net (income) loss of subsidiary					40	40
Income taxes & other					62,927	62,927
Net income attributable to XL Capital Ltd						\$ 88,638

Ratios P&C operations: (5)

Loss and loss expense ratio	67.8%	43.8%	60.3%
Underwriting expense ratio	31.5%	33.9%	32.3%
Combined ratio	99.3%	77.7%	92.6%

Notes:

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

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- (2) The net results from P&C and Corporate structured products include net investment income, interest expense and operating expenses of \$39.7 million, \$17.9 million and nil and \$15.6 million, \$5.1 million and \$0.8 million, respectively.
- (3) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business and expenses related to the cost of an endorsement facility with National Indemnity Company.
- (4) Interest expense excludes interest expense related to deposit liabilities recorded in the Insurance and Reinsurance segments and Corporate.
- (5) Ratios are based on net premiums earned from P&C operations.

XL CAPITAL LTD

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Segment Information (Continued)

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

Three months ended June 30, 2010

(U.S. dollars in thousands)

(Unaudited)

	Insurance	Reinsurance	Life Operations	Total
P&C Operations:				
Casualty – professional lines	\$ 328,068	\$ 51,665	\$	\$ 379,733
Casualty – other lines	147,001	51,320	\$	198,321
Property catastrophe	(1)	80,877	\$	80,876
Other property	108,016	115,425	\$	223,441
Marine, energy, aviation and satellite	133,720	22,451	\$	156,171
Other specialty lines (1)	153,949	\$	\$	153,949
Other (2)	(4,555)	25,847	\$	21,292
Structured indemnity	2,468	62	\$	2,530
Total P&C Operations	\$ 868,666	\$ 347,647	\$ 86,448	\$ 1,216,313
Life Operations:				
Other Life	\$	\$	\$ 55,879	\$ 55,879
Annuity	\$	\$	30,569	30,569
Total Life Operations	\$	\$	\$ 86,448	\$ 86,448
Total	\$ 868,666	\$ 347,647	\$ 86,448	\$ 1,302,761

Three months ended June 30, 2009:

(U.S. dollars in thousands)

(Unaudited)

	Insurance	Reinsurance	Life Operations	Total
P&C Operations:				
Casualty – professional lines	\$ 310,985	\$ 62,135	\$	\$ 373,120
Casualty – other lines	160,653	60,660	\$	221,313
Property catastrophe	1,760	75,478	\$	77,238
Other property	104,636	140,336	\$	244,972
Marine, energy, aviation and satellite	139,835	20,333	\$	160,168
Other specialty lines (1)	153,990	\$	\$	153,990
Other (2)	4,563	39,944	\$	44,507
Structured indemnity	5,068	1,373	\$	6,441
Total P&C Operations	\$ 881,490	\$ 400,259	\$ 147,951	\$ 1,281,749
Life Operations:				
Other Life	\$	\$	\$ 114,560	\$ 114,560
Annuity	\$	\$	33,391	33,391
Total Life Operations	\$	\$	\$ 147,951	\$ 147,951
Total	\$ 881,490	\$ 400,259	\$ 147,951	\$ 1,429,700

