XL GROUP PLC
Form 10-K
February 25, 2015

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission file number 1-10804

XL GROUP
Public Limited Company
(Exact name of registrant as specified in its charter)

Ireland (State or other jurisdiction of incorporation or organization)	98-0665416 (I.R.S. Employer Identification No.)
XL House, 8 St. Stephen's Green, Dublin 2, Ireland (Address of principal executive offices and zip code)	+353 (1) 400-5500 (Registrant’s telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
Ordinary Shares, Par Value $0.01 per Share	New York Stock Exchange
XLIT Ltd. 2.30% Senior Notes due 2018	New York Stock Exchange
XLIT Ltd. 5.75% Senior Notes due 2021	New York Stock Exchange
XLIT Ltd. 5.25% Senior Notes due 2043	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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.

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

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

The aggregate market value of the voting common equity of the registrant held by non-affiliates of the registrant on June 30, 2014 was approximately $8.8 billion computed upon the basis of the closing sales price of the ordinary shares on June 30, 2014. For purposes of this computation, ordinary shares held by directors and officers of the registrant have been excluded. Such exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

As of February 19, 2015, there were 255,239,522 outstanding Ordinary Shares, $0.01 par value per share, of the registrant.

Documents Incorporated By Reference

Portions of the Registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report relating to the annual meeting of ordinary shareholders to be held on May 8, 2015 are incorporated by reference into Part III of this Form 10-K.

XL GROUP PLC
TABLE OF CONTENTS

		Page
PART I		
Item 1.	Business	1
Item 1A.	Risk Factors	27
Item 1B.	Unresolved Staff Comments	49
Item 2.	Properties	49
Item 3.	Legal Proceedings	50
Item 4.	Mine Safety Disclosures	50
PART II		
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	53
Item 6.	Selected Financial Data	56
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	58
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	112
Item 8.	Financial Statements and Supplementary Data	120
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	205
Item 9A.	Controls and Procedures	205
Item 9B.	Other Information	205
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	206
Item 11.	Executive Compensation	206
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	206
Item 13.	Certain Relationships and Related Transactions, and Director Independence	206
Item 14.	Principal Accounting Fees and Services	206
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	207

This Annual Report on Form 10-K contains “Forward-Looking Statements” as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Important factors that could cause actual results to differ materially from those in such Forward-Looking Statements are set forth herein under Item 1A, “Risk Factors,” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” under the caption “Cautionary Note Regarding Forward-Looking Statements.”

PART I
ITEM 1. BUSINESS
History
XL Group plc, through its subsidiaries, is a global insurance and reinsurance company providing property, casualty and specialty products to industrial, commercial and professional firms, insurance companies and other enterprises on a worldwide basis. We were incorporated with limited liability under the Cayman Islands Companies Act on March 16, 1998, as EXEL Merger Company. On August 7, 1998, EXEL Limited and Mid Ocean Limited merged to create EXEL Limited. EXEL Limited and Mid Ocean Limited were incorporated in the Cayman Islands with principal operations in Bermuda in 1986 and 1992, respectively. At a special general meeting held on February 1, 1999, the shareholders of EXEL Limited approved a resolution changing the name of the company to XL Capital Ltd.
On June 18, 1999, XL Capital Ltd merged with NAC Re Corp. (“NAC”), a Delaware corporation organized in 1985, in a stock merger.
On July 25, 2001, we acquired certain Winterthur International insurance operations to extend globally our predominantly North American-based large corporate insurance business.
Effective January 1, 2002, we increased our shareholding in Le Mans Ré from 49% to 67% in order to expand our international reinsurance operations. On September 3, 2003, we exercised our option to buy the remaining 33% from Les Mutuelles du Mans Assurances (“MMA”) and changed the name of Le Mans Ré to XL Re Europe S.A. On October 18, 2006, we received approval to form a new European company, XL Re Europe Limited, based in Dublin, Ireland, which is licensed to write all classes of reinsurance business; during 2013, that company re-registered as a European public limited liability company and changed its name to XL Re Europe SE. XL Re Europe SE is the headquarters of the Company’s European reinsurance platform with branch offices in France, Switzerland and the United Kingdom (the “U.K.”). On April 17, 2014, we received approval to open a branch office in Dubai.
On August 4, 2006, we completed the sale of approximately 37% of our then financial guarantee reinsurance and insurance businesses through an initial public offering of 23.4 million common shares of Syncora Holdings Ltd. (“Syncora”) (formerly Security Capital Assurance Ltd. or “SCA”). On June 6, 2007, we completed the sale of an additional portion of Syncora’s common shares still owned by the Company through a secondary offering and thereby reduced our ownership of Syncora’s outstanding common shares further from approximately 63% to approximately 46%. On August 5, 2008, we closed an agreement (the “Master Agreement”) with Syncora and its subsidiaries, as well as certain counterparties to credit default swap agreements, in connection with the termination of certain reinsurance and other agreements. As part of the Master Agreement, we transferred all of the shares we owned in Syncora to a trust and, as a result, have no further ownership interest in the company.
On July 1, 2010, XL Group plc, a newly formed Irish public limited company (“XL-Ireland”) and XL Capital Ltd (now known as XLIT Ltd.), an exempted company organized under the laws of the Cayman Islands (“XL-Cayman”), completed a redomestication transaction in which all of the ordinary shares of XL-Cayman were exchanged for all of the ordinary shares of XL-Ireland (the “Redomestication”). As a result, XL-Cayman became a wholly-owned subsidiary of XL-Ireland. On July 23, 2010, the Irish High Court approved XL-Ireland’s creation of distributable reserves, subject to the completion of certain formalities under Irish company law. These formalities were completed in early August 2010. For further detailed information on this transaction and its impacts on shareholder rights, shareholders’ equity, debt and notes then outstanding and employee stock plan awards, see the Company’s Report on Form 8-K filed with the U.S. Securities and Exchange Commission (the "SEC") on July 1, 2010.
On May 1, 2014, our wholly-owned subsidiary, XL Insurance (Bermuda) Ltd ("XLIB"), entered into a sale and purchase agreement with GreyCastle Holdings Ltd ("GreyCastle") providing for the sale of 100% of the common shares of XLIB's wholly-owned subsidiary, XL Life Reinsurance (SAC) Ltd ("XLLR"), to GreyCastle (subsequent to the transaction, XLLR changed its name to GreyCastle Life Reinsurance (SAC) Ltd ("GCLR")). This transaction closed on May 30, 2014. As a result of the transaction, we have ceded the majority of our life reinsurance business to GCLR via 100% quota share reinsurance (the "Life Retro Arrangements"). This transaction covers a substantial portion of our life reinsurance reserves. We ceased writing new life reinsurance contracts in 2009 and since that time have been managing the run-off of our life reinsurance operations ("Run-Off Life Operations"). The designated investments that support the Life Retro Arrangements on a funds withheld basis ("Life Funds Withheld Assets") are

managed pursuant to agreed investment guidelines that meet the contractual commitments of the Company's ceding subsidiaries and applicable laws and regulations. All of the investment results associated with the Life Funds Withheld Assets ultimately accrue to GCLR.

1

On January 9, 2015, we entered into an implementation agreement (the “Implementation Agreement”) with Catlin Group Limited (“Catlin”) and Green Holdings Limited, a direct, wholly-owned subsidiary of XL-Ireland (“Green Holdings”), pursuant to which we will acquire the entire issued and to be issued share capital of Catlin (the “Acquisition”) for cash and newly-issued ordinary shares of XL-Ireland. Under the terms of the Acquisition, Catlin shareholders will be entitled to receive 388 pence in cash and 0.130 ordinary shares of XL-Ireland, in exchange for each Catlin common share, par value $0.01 per share (“Catlin Shares”), subject to the proration and adjustment mechanisms set forth in the Implementation Agreement. On the basis of the closing price of an ordinary share of XL-Ireland on January 8, 2015 of $35.42, the Acquisition values Catlin at 693 pence per Catlin Share, representing a transaction equity value of approximately $4.1 billion. The Acquisition is intended to be effected by means of a two-step, integrated process comprising a scheme of arrangement (the “Scheme”) under Section 99 of the Companies Act 1981 Bermuda, as amended (the “Companies Act”), required to be sanctioned by the Supreme Court of Bermuda, followed immediately by a merger of Catlin with and into Green Holdings under Section 104H of the Companies Act. The Scheme will require that a meeting of Catlin’s shareholders be convened at the direction of the Supreme Court of Bermuda to approve the Scheme (the “Court Meeting”) as well as a special general meeting to be held immediately thereafter to approve certain related implementation matters in connection with the Acquisition (the “General Meeting”). To become effective, the Scheme requires the approval of Catlin shareholders of the resolutions to be proposed at the Court Meeting by a majority in number representing not less than three-fourths of the voting rights of the holders of the Catlin Shares (or the relevant class or classes thereof, if applicable) present and voting, either in person or by proxy, at the Court Meeting. The related resolutions to be proposed at the General Meeting require approval by not less than three-fourths of the votes cast by holders of Catlin Shares present and voting at the General Meeting (either in person or by proxy), at the General Meeting. For further information on the Acquisition, see the Company's Report on Form 8-K filed with the SEC on January 9, 2015 under Items 1.01, 2.03, 8.01 and 9.01.

On January 9, 2015, in connection with the Acquisition, XL-Cayman, as borrower, XL-Ireland, X.L. America, Inc., XLIB, XL Re Ltd, and XL Life Ltd, as guarantors, Morgan Stanley Senior Funding, Inc., as administrative agent, and the lenders party thereto entered into a senior unsecured 364-Day Bridge Loan Agreement (the “Bridge Loan Agreement”) providing for a £1.6 billion bridge loan facility (the “Bridge Facility”). The proceeds of the Bridge Facility may be used to finance the payment of the cash consideration in connection with the Acquisition and to pay fees and expenses related thereto. For further information on the Bridge Facility, see the Company's Report on Form 8-K filed with the SEC on January 9, 2015 under Items 1.01, 2.03, 8.01 and 9.01.

Unless the context otherwise indicates, references herein to the “Company”, “we”, “us” or “our” are to, and the Consolidated Financial Statements herein include, the accounts of, XL-Ireland and its consolidated subsidiaries.

See further information under Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Segments

We are organized into two operating segments: Insurance and Reinsurance. Our general investment and financing operations, and our Run-Off Life Operations, are reflected in Corporate and Other.

As noted above, GCLR reinsures the majority of our life reinsurance business via the Life Retro Arrangements. This transaction covered a substantial portion of our life reinsurance reserves. Therefore, we determined that the Run-Off Life Operations no longer should be considered a separate operating segment. Prior period information has been re-presented to reflect the current presentation. See Item 8, Note 3, "Sale of Life Reinsurance Subsidiary," to the Consolidated Financial Statements included herein.

We evaluate the performance of both the Insurance and Reinsurance segments based on underwriting profit. Other items of our revenue and expenditure are not evaluated at the segment level for reporting purposes. In addition, we do not allocate investment assets by segment for our property and casualty (“P&C”) operations. Investment assets related to our Run-Off Life Operations, and certain structured products included in our Insurance and Reinsurance segments, are held in separately identified portfolios. As such, net investment income from these assets is included in the contribution from the applicable segment or, with respect to our Run-Off Life Operations, included in Corporate and Other.

2

The following table sets forth an analysis of gross premiums written by segment for the years ended December 31, 2014, 2013 and 2012. Additional financial information about our segments, including financial information about geographic areas, is included in Item 8, Note 5, "Segment Information," to the Consolidated Financial Statements included herein.

(U.S. dollars in thousands)	Gross Premiums Written			Percentage Change	
	2014	2013	2012	2014 to 2013	2013 to 2012
Insurance	$5,976,011	$5,523,181	$5,166,973	8.2 %	6.9 %
Reinsurance	1,785,479	1,893,611	2,008,157	(5.7)%	(5.7)%
Corporate and Other	333,436	324,343	355,753	2.8 %	(8.8)%
Total	$8,094,926	$7,741,135	$7,530,883	4.6 %	2.8 %

Insurance Segment

General

Our insurance operations are organized into four business groups: International Property and Casualty, North America Property and Casualty, Global Professional Lines and Global Specialty Lines.

Our insurance operations provide customized insurance policies for complex corporate risks that may require large limits and are marketed and distributed through a wide variety of local, national and international producers. Large deductibles and self-insured retentions are incorporated into these policies to further manage risk along with stringent underwriting guidelines. While our insurance operations are known for insuring large complex risk, certain of our products are targeted to small and midsize companies and organizations, such as our professional liability and program business. We focus on those lines of business that we believe will provide the best return on capital over time.

The Insurance segment's most significant operating legal entities in 2014 based on revenues were as follows: XL Insurance (Bermuda) Ltd, XL Insurance Company SE, XL Specialty Insurance Company, Indian Harbor Insurance Company, Greenwich Insurance Company and XL Insurance America, Inc., as well as our Lloyd's syndicate.

The excess nature of many of our insurance products, coupled with historically large policy limits, results in a book of business that can have losses characterized as low frequency and high severity. As a result, large losses, though infrequent, can have a significant impact on our results of operations, financial condition and liquidity. We attempt to mitigate this risk by, among other things, using strict underwriting guidelines, effective risk management practices (e.g., monitoring of aggregate exposures) and various reinsurance arrangements, as discussed below.

International Property and Casualty ("IPC")

IPC includes the following lines of business: property, primary and excess casualty, and environmental liability. Property and casualty products are typically written as global insurance programs for large and medium sized multinational companies and institutions and include property and liability coverages. Property and casualty products generally provide large capacity on a primary, quota share or excess of loss basis. Global insurance programs are targeted to large multinational companies in major industry groups including aerospace, automotive, consumer products, pharmaceutical, pulp and paper, high technology, telecommunications, transportation and basic metals. The primary casualty programs generally require customers to take large deductibles or self-insured retentions. For the excess business, our liability attaches after large deductibles, including self insurance or insurance layers provided by other companies. Policies are written on an occurrence, claims-made and occurrence reported basis. Our property business, which also includes construction projects, is short-tail by nature and written on both a primary and excess of loss basis. Property business includes exposures to man-made and natural disasters.

Environmental liability products include pollution and remediation legal liability, general and project-specific pollution and professional liability, and commercial general property redevelopment and contractor's pollution liability. Business is written for both single and multiple years on a primary or excess of loss, claims-made or, less frequently, occurrence basis. Targeted industries include environmental service firms, contractors, healthcare facilities, manufacturing facilities, real estate development, transportation and construction.

North America Property and Casualty (“NAPC”)
NAPC includes the following lines of business: property, primary and excess casualty, environmental liability, excess and surplus lines, construction, surety, and program business.
In addition to the property, casualty and environmental products described under IPC, the NAPC business unit also includes 100% property products for the large account risk engineered markets and general liability, United States ("U.S.") workers’ compensation and auto liability for the risk management accounts, which require customers to take large deductibles or self-insured retentions.
Excess and surplus lines products include general liability property, excess auto and excess liability coverages where most Insurance Services Office, Inc. (“ISO”) products are written. Targets include a variety of classes, with a focus on “one-off” risks generated by contracted wholesale brokers.
Construction products include property coverages (builders risk, contractors equipment, property and inland marine), general liability, U.S. workers' compensation and commercial auto, as well as professional liability for contractors and owners, excess umbrella, subcontractor default insurance, and primary casualty wrap ups.
Surety products include contract bonds, including bid, performance, payment and contractor qualification bonds, as well as commercial surety bonds, including appeal, court and qualification bonds. Products in general provide large capacity and are written on a sole surety, co-surety or shared surety basis.
Our program business specializes in insurance coverages for distinct market segments in North America, including program administrators and managing general agents who operate in a specialized market niche and have unique industry backgrounds or specialized underwriting capabilities. Products encompass mostly property and casualty coverages.
Global Professional Lines (“Professional”)
Professional includes directors’ and officers’ liability, errors and omissions liability, employment practices liability, and technology and cyber liability coverages. Policies are written on both a primary and excess of loss basis. Directors’ and officers’ coverage includes primary and excess directors’ and officers’ liability related to both public and private companies and employment practices liability. Products are targeted at a variety of different sized companies, with a heavy concentration on small to medium-sized firms when written on a primary basis. Employment practices liability is written primarily for very large corporations on an excess of loss basis and covers those firms for legal liability in regard to the treatment of employees. Errors and omissions coverage is written on a primary and excess basis.
Errors and omissions insurance written on a primary basis is targeted to small and medium-sized firms and coverage is provided for various professional exposures, including, but not limited to, architects and engineers, insurance brokers, consultants, lawyers, public entities and real estate agents.
Global Specialty Lines (“Specialty”)
Specialty includes the following lines of business: aviation and satellite, marine and offshore energy, fine art and specie, equine, product recall, political risk and trade credit, North America inland marine, political violence, and kidnap and ransom.
Aviation and satellite products include comprehensive airline hull and liability, airport liability, aviation manufacturers’ product liability, aviation ground handler liability, large aircraft hull and liability, corporate non-owned aircraft liability, space third party liability and satellite risk including damage or malfunction during ascent to orbit and continual operation, and aviation war. Aviation liability and physical damage coverage is offered for large aviation risks on a proportional basis, while smaller general aviation risks are offered on a primary basis. Satellite risks are generally written on a proportional basis. The target markets for aviation and satellite products include airlines, aviation product manufacturers, aircraft service firms, general aviation operators and telecommunications firms.
Marine and offshore energy coverage includes marine hull and machinery, marine war, marine excess liability, cargo and offshore energy insurance. Fine art and specie coverages include fine art and other collections, jewelers block, cash in transit and related coverages for financial institutions. Equine products specialize in providing bloodstock and livestock insurance. Product recall coverages include product contamination for the food and beverage sector and end-product consumer goods and product guarantee aimed at component part manufacturers.

Political risk and trade credit coverages include contract frustration, foreign direct investment, trade credit and trade receivable insurance for clients involved in international business. North America inland marine coverages include property, builders risk, transportation, warehouse liability and other marine coverages. Finally, our Crisis Management business - which includes the product recall coverages noted above - also includes insurance to protect assets that are exposed to war, terrorism and political violence attacks, as well as kidnap, ransom and extortion crisis protection.

XL Global Asset Protection Services ("XL GAPS")
Also included as part of the Insurance segment is XL GAPS, a fee for service loss prevention consulting service that offers individually tailored risk management solutions to risk managers, insurance brokers and insurance company clients operating on a global basis. Services are offered on an "unbundled" (services not tied to an insurance contract) and "bundled" basis.

Underwriting
We underwrite and price most risks individually following a review of the exposure and in accordance with our underwriting guidelines. Most of our insurance operations have underwriting guidelines that are industry-specific. We seek to serve our clients while controlling our exposure on individual insurance contracts through terms and conditions, policy limits and sublimits, attachment points and facultative and treaty reinsurance arrangements on certain types of risks.

Our underwriters generally evaluate each industry category and subgroups within each category. Premiums are set and adjusted for an insured based, in large part, on the industry group in which the insured is placed and the perceived risk of the insured relative to the other risks in that group. Rates may vary significantly according to the industry group of the insured as well as the insured's risk relative to the group. Our rating methodology for individual insureds seeks to set premiums in accordance with claims potential as measured by past experience and future expectations, the attachment point and amount of underlying insurance, the nature and scope of the insured's operations, exposures to loss, including natural hazard exposures, risk management quality and other specific risk factors relevant in the judgment of our underwriters to the type of business being written.

Underwriting and loss experience is reviewed regularly for, among other things, loss trends, emerging exposures, changes in the regulatory or legal environment as well as the efficacy of policy terms and conditions.

As our insurance products are primarily specialized coverages, underwriting guidelines and policy forms differ by product offering as well as by legal jurisdiction. Liability insurance is written on both a primary and excess of loss basis, on occurrence, occurrence reported and claims-made policy forms. Occurrence reported policies typically cover occurrences causing unexpected and unintended personal injury or property damage to third parties arising from events or conditions that commence at or subsequent to an inception date, or retroactive date, if applicable, and prior to the expiration of the policy provided that proper notice is given during the term of the policy or the discovery period. Claims-made policies typically cover only claims made during the policy period or extended reporting period and are generally associated with professional liability and environmental coverages. Traditional occurrence coverage is also available for restricted classes of risk and is generally written on a follow-form basis for excess of loss coverage, where the policy adopts the terms, conditions and exclusions of the underlying policy. Property insurance risks are written on a lead or follow-form basis that usually provides coverage for all risks of physical damage and business interruption. Maximum limits are generally subject to sublimits for coverage in critical earthquake and flood zones, where we seek to limit liability in these areas.

Engineering
Property engineering for our insurance operations includes conducting on-site inspections and consulting services related to loss prevention, reviews of building plans for fire protection design, computer assisted drawings (diagrams) of facilities, recommendations on how to improve site protection, reviews of existing loss prevention reports/information for underwriters, summarizing multiple sources of information into an account summary, and providing underwriters an opinion on the risk to assist with risk selection, pricing and other underwriting decisions. The property engineering team consists of staff located in over 20 countries.

Other engineering resources support casualty, environmental, specialty and construction lines and serve as internal consultants to their respective underwriting teams, assisting them with making underwriting decisions, as well as helping their customers improve their local site or account protection.

Reinsurance Ceded
In certain cases, the risks insured by us in the Insurance segment are partially reinsured by third party reinsurers. Reinsurance ceded varies by location and line of business based on a number of factors, including market conditions. The benefits of ceding risks to third party reinsurers include reducing exposure on individual risks, protecting against catastrophic risks, maintaining acceptable capital ratios and enabling the writing of additional business. Reinsurance

ceded does not legally discharge us from our liabilities to the original policyholder in respect of the risk being reinsured.

We use reinsurance to support the underwriting and retention guidelines of each of our subsidiaries as well as to control our aggregate exposure to a particular risk or class of risks. Reinsurance is purchased at several levels ranging from reinsurance of risks assumed on individual contracts to reinsurance covering the aggregate exposure on a portfolio of policies issued by

groups of companies. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” for further information.

Premiums

Premium rates and underwriting terms and conditions for all lines of business written vary by jurisdiction principally due to local market conditions, competitor product offerings and legal requirements.

The following table provides an analysis of gross premiums written, net premiums written and net premiums earned for the Insurance segment for the years ended December 31, 2014, 2013 and 2012:

(U.S. dollars in thousands)	2014			2013 (1)			2012 (1)		
	Gross Premiums Written	Net Premiums Written	Net Premiums Earned	Gross Premiums Written	Net Premiums Written	Net Premiums Earned	Gross Premiums Written	Net Premiums Written	Net Premiums Earned
Professional	$1,550,929	$1,076,209	$1,075,420	$1,465,689	$1,161,045	$1,370,196	$1,460,018	$1,395,694	$1,350,319
Casualty	2,150,302	1,437,889	1,422,684	1,975,330	1,434,967	1,389,851	1,745,356	1,254,161	1,165,753
Property	874,198	538,027	544,856	875,773	568,575	544,278	782,339	483,682	489,739
Specialty	1,013,592	791,024	737,281	906,650	746,517	732,042	892,088	738,655	708,568
Other (2)	386,990	291,002	246,472	299,739	242,989	231,310	287,172	200,319	210,257
Total	$5,976,011	$4,134,151	$4,026,713	$5,523,181	$4,154,093	$4,267,677	$5,166,973	$4,072,511	$3,924,636

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(1) Certain reclassifications have been made to conform to the current year presentation.

(2) Other includes excess and surplus, surety, structured indemnity and certain other discontinued lines.

Competition

We compete globally in the property and casualty insurance markets. Our competitors include the following companies and their affiliates: The ACE Group of Companies (“ACE”); Allianz SE (“Allianz”); American International Group, Inc. (“AIG”); Factory Mutual Global (“FMG”) for property only; The Hartford Financial Services Group, Inc. (“Hartford”); Lloyd’s of London Syndicates (“Lloyd’s”); The Chubb Corporation (“Chubb”); The Travelers Companies (“Travelers”); and Zurich Insurance Group Ltd (“Zurich”).

The major geographical markets for our property and casualty insurance operations are North America, Europe and Bermuda. Our main competitors in each of these markets include the following:

North America – AIG, ACE, Chubb, FMG, Zurich, Travelers, CNA Financial Corporation, Hartford, Liberty Mutual Group, Arch Capital Group Ltd (“Arch”), W.R. Berkley Corporation, Markel Corporation ("Markel") and Lloyd’s.

Europe – Allianz, AIG, FMG, Zurich, AXA Insurance Ltd. (“AXA”), ACE, Lloyd’s, Assicurazioni Generali, HDI-Gerling Industrie Versicherung AG and MAPFRE S.A.

Bermuda – ACE, Allied World Assurance Company, Axis Capital Group, Markel, Endurance Specialty Insurance Ltd and Arch.

Marketing and Distribution

The majority of business in our Insurance segment originates via a large number of international, national and regional producers, acting as the brokers and representatives of current and prospective policyholders. This channel is supported by our Global Distribution and Network Unit, which consists of sales and marketing representatives in key markets throughout the world, representing all of our products in collaboration with the four business groups. A portion of Insurance segment business is also marketed and underwritten by general agents and a portion by independent agents acting on our behalf. Typically, all such producers, general agents and independent agents receive commission payments for their services, which are calculated as a percentage of the gross premium paid by the policyholder on an account-by-account basis. A certain portion of business originating from producers is submitted on a fee basis under which the producer is compensated by a fee paid to it by its policyholder client. From time to time, we also consider requests for commissions from a producer, with disclosure by the producer to the policyholder-client in accordance with applicable law, where the producer receives a fee from the policyholder-client. We evaluate such requests on a case-by-case basis.

We consider requests for contingent/additional commission arrangements where such contingent/additional commissions are based upon the volume of bound business originated from a specific producer during a calendar year,

or based upon growth of a particular segment of business, where legal and appropriate. Such arrangements are distinct from program business where additional commissions are generally based on profitability of business submitted to and bound by us.

With regard to excess and surplus lines business, we receive submissions from licensed wholesale surplus lines brokers.
We have no implied or explicit commitments to accept business from any particular broker, and neither producers nor any other third party have the authority to bind us, except in the case where underwriting authority may be delegated contractually to selected general agents. Such general agents are subject to a financial and operational due diligence review prior to any such delegation of authority and we conduct ongoing reviews and audits as deemed necessary with the goal of assuring the continuing integrity of underwriting and related business operations. See Item 8, Note 19(a), “Commitments and Contingencies – Concentrations of Credit Risk,” to the Consolidated Financial Statements included herein, for information on our major producers.
Apart from compensation arrangements established with producers in connection with insurance transactions, we also have engaged, and may in the future engage, certain producers or their affiliates in consulting roles pursuant to which such producers provide access to certain systems and information and/or additional services that may assist us with our marketing and distribution. In instances where we engage producers in such consulting roles, we may compensate the relevant producers on a fixed fee basis, a variable fee basis based upon our usage of the systems and information proffered, through a combination of fixed and variable fees or in some jurisdictions, where appropriate, on a commission basis.
Claims Administration
Claims management for our insurance operations includes the review of initial loss reports, administration of claims databases, generation of appropriate responses to claims reports, identification and handling of coverage issues, determination of whether further investigation is required and, where appropriate, retention of claims counsel, establishment of case reserves, payment of claims and notification to reinsurers. With respect to the establishment of case reserves, when we are notified of insured losses, our claims personnel record a case reserve as appropriate for the estimated amount of the exposure at that time. The estimate reflects the judgment of claims personnel based on general reserving practices, the experience and knowledge of such personnel regarding the nature of the specific claim and, where appropriate, advice of counsel. Reserves are also established to provide for the estimated expense of settling claims, including legal and other fees and the general expenses of administering the claims adjustment process.
Claims in respect of business written by our Lloyd’s syndicate are handled by the lead syndicate, and on large or complex claims the second syndicate, participating on the risk who bind the following underwriters. The claims are processed by XChanging, the central market bureau. Where a syndicate is a “lead” syndicate on a Lloyd’s policy, its underwriters and claims adjusters will work directly with the broker or insured on behalf of itself and the other participating or "following" underwriters for any particular claim. This may involve appointing attorneys or loss adjusters. The lead syndicate advises movement in loss reserves to all syndicates participating on the risk. Our claims department may adjust the case reserves it records from those advised by the lead syndicate as deemed necessary.
Certain of our product lines have arrangements with third party administrators to provide claims handling services to us in respect of such product lines. These agreements set forth the duties of the third party administrators, limits of authority, protective indemnification language and various procedures that are required to meet statutory compliance. These arrangements are also subject to audit review by our relevant claim department.
Reinsurance Segment
General
Our reinsurance operations are structured geographically into business groups: Bermuda, North America and International (Europe, Asia Pacific, Latin America and Middle East North Africa ("MENA")). During the second quarter of 2013, the business groups were realigned to include Latin America within the International business group. This segment provides casualty, property risk, property catastrophe, marine, aviation, crop, and other specialty reinsurance on a global basis with business being written on both a proportional and non-proportional treaty basis, and also on a facultative basis. Our lines of business within the Reinsurance segment continue to focus on those that provide the best risk adjusted return on capital. For our Reinsurance segment, challenging market conditions and the changing economic environment experienced since 2008 resulted in a greater emphasis being placed on short-tail lines of business.

Business written on a non-proportional basis generally provides for an indemnification by us to the ceding company for a portion of losses, both individually and in the aggregate, on policies with limits in excess of a specified individual or aggregate loss deductible. For business written on a proportional basis, including on a “quota share” or “surplus” basis, we receive an agreed percentage of the premiums and are liable for the same percentage of each and all incurred losses. For proportional business, the ceding company normally receives a ceding commission for the premiums ceded and may also, under certain

circumstances, receive a profit commission based on performance of the contract. Occasionally this commission could be on a sliding scale depending on the loss ratio performance of the contract.
Our casualty reinsurance includes general liability, professional liability, automobile and workers' compensation. Professional liability includes directors' and officers', employment practices, medical malpractice and environmental liability. Casualty lines are written as treaties or programs, and on both a proportional and a non-proportional basis. The treaty business includes clash programs, which cover losses under a number of underlying policies involved in one occurrence or a judgment above an underlying policy's limit.
Our property business, primarily short-tail in nature, is written on both a portfolio/treaty and individual/facultative basis, and includes property catastrophe, property risk excess of loss and property proportional. A significant portion of the underwritten property business consists of large aggregate exposures to man-made and natural disasters and, generally, loss experience is characterized as low frequency and high severity. This may result in volatility in our results of operations, financial condition and liquidity. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."
We seek to manage our reinsurance exposures to catastrophic events by limiting the amount of exposure written in each geographic or peril zone worldwide, underwriting in excess of varying attachment points and typically ensuring that contracts exposed to catastrophe loss include aggregate limits. We also seek to protect our total aggregate exposures by peril and zone through the purchase of reinsurance programs. Our property catastrophe reinsurance account is generally "all risk" in nature. As a result, we are exposed to losses from sources as diverse as hurricanes and other windstorms, earthquakes, freezing, riots, floods, industrial explosions, fires and many other potential natural or man-made disasters. In accordance with market practice, our policies generally exclude certain risks such as war, nuclear contamination or radiation. Following the terrorist attacks at the World Trade Center in New York City, Washington, D.C. and Pennsylvania on September 11, 2001 (collectively, "the September 11 event"), terrorism coverage, including nuclear, biological, radiological and chemical, has been restricted or excluded in many territories and classes. Some U.S. states require some cover for "Fire Following" terrorism and some countries make terrorism coverage mandatory. Our predominant exposure under such coverage is to property damage.
Property catastrophe reinsurance provides coverage on an excess of loss basis when aggregate losses and loss adjustment expenses from a single occurrence of a covered event, or multiple occurrences in the case of aggregate covers, exceed the attachment point specified in the policy. Some of our property catastrophe contracts limit coverage to one occurrence in any single policy year, but most contracts generally enable at least one reinstatement to be purchased by the reinsured. We also write property risk excess of loss reinsurance. Property risk excess of loss reinsurance covers a loss to the reinsured on a single risk of the type reinsured rather than to aggregate losses for all covered risks on a specific peril, as is the case with catastrophe reinsurance. Our property proportional account business includes reinsurance of direct property insurance. We seek to limit the catastrophe exposure from our proportional and per risk excess business through extensive use of occurrence and cession limits.
Other specialty reinsurance products include energy, marine, aviation, space, engineering, fidelity, surety, trade credit, accident and health, mortgage and political risk. In addition, we write several whole account capital gearing quota share contracts on select syndicates at Lloyd's.
The segment's most significant operating legal entities in 2014 based on revenues were as follows: XL Re Ltd, XL Re Europe SE, XL Reinsurance America Inc. and XL Re Latin America Ltd.
Underwriting
Underwriting risks for the reinsurance property and casualty business are evaluated using a number of factors including, but not limited to, the type and layer of risk to be assumed, the actuarial evaluation of premium adequacy, the cedant's underwriting and claims experience, the cedant's financial condition and claims paying rating, the exposure and/or experience with the cedant, and the line of business to be reinsured.
Other factors we assess include the reputation of the proposed cedant, the geographic area in which the cedant does business and its market share, a detailed evaluation of catastrophe and risk exposures, and historical loss data for the cedant, where available, and for the industry as a whole in the relevant regions in order to compare the cedant's historical loss experience to industry averages. On-site underwriting and claim reviews are performed where it is deemed necessary to determine the quality of a current or prospective cedant's underwriting operations, with particular

emphasis on casualty proportional and working excess of loss placements.

For property catastrophe reinsurance business, our underwriting guidelines generally limit the amount of exposure we will directly underwrite for any one reinsured and the amount of the aggregate exposure to catastrophic losses in any one geographic zone. We believe that we have defined geographic and peril zones such that a single occurrence, for example, an earthquake or hurricane, should not affect more than one peril zone. While the exposure to multiple zones is considered remote for events

such as a hurricane, we do manage our aggregate exposures for such a scenario where we consider it appropriate to do so. The definition of our peril zones is subject to periodic review. We also generally seek an attachment point for our property catastrophe reinsurance at a level that is high enough to produce a low frequency of loss. We seek to limit our aggregate exposure in the proportional business through extensive use of occurrence and cession limits.

Reinsurance Retroceded

We use third party reinsurance to support the underwriting and retention guidelines of each reinsurance subsidiary as well as to seek to limit our aggregate exposure to a particular risk or class of risks. Reinsurance is purchased at several levels ranging from reinsurance of risks assumed on individual contracts to reinsurance covering aggregate exposures. The benefits of ceding risks to other reinsurers include reducing exposure on individual risks, protecting against catastrophic risks, maintaining acceptable capital ratios and enabling the writing of additional business. Reinsurance ceded does not legally discharge us from our liabilities in respect of the risk being reinsured. Reinsurance ceded varies by location and line of business based on factors including, among others, market conditions and the credit worthiness of the counterparty.

Our traditional catastrophe retrocession program was renewed in 2014 to cover certain of our exposures. These protections, in various layers and in excess of varying attachment points according to the territory exposed, assist in managing our net retention to an acceptable level. We have co-reinsurance retentions within this program. In addition, we cede catastrophe excess of loss business on a proportional basis to certain unrelated companies as well as one affiliated company that in turn distributes the risk to non-affiliated third party investors.

We continue to buy additional protection for our property facultative, crop, health, marine and aviation portfolios to manage our net exposures in these classes.

See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Item 8, Note 10, “Reinsurance,” to the Consolidated Financial Statements included herein, for further information.

Premiums

The following table provides an analysis of gross premiums written, net premiums written and net premiums earned for the Reinsurance segment for the indicated years ended December 31:

(U.S. dollars in thousands)	2014			2013 (1)			2012 (1)		
	Gross Premiums Written	Net Premiums Written	Net Premiums Earned	Gross Premiums Written	Net Premiums Written	Net Premiums Earned	Gross Premiums Written	Net Premiums Written	Net Premiums Earned
Casualty - professional lines	$126,876	$126,873	$181,223	$199,159	$199,153	$206,169	$221,354	$221,355	$213,324
Casualty - other lines	302,903	301,109	300,223	332,153	330,681	312,156	332,563	330,714	311,166
Property catastrophe	493,646	428,723	433,602	556,493	498,997	492,568	537,087	473,373	463,975
Other property	585,782	531,203	555,583	587,278	545,846	561,105	653,513	622,855	613,291
Marine, energy, aviation & satellite	112,039	104,718	95,745	91,997	76,241	94,797	169,885	153,948	147,362
Other (2)	164,233	140,432	124,349	126,531	98,971	79,627	93,755	82,263	92,224
Total	$1,785,479	$1,633,058	$1,690,725	$1,893,611	$1,749,889	$1,746,422	$2,008,157	$1,884,508	$1,841,342

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(1) Certain reclassifications have been made to conform to the current year presentation.
(2) Other includes whole account contracts, surety and other lines.

Additional discussion and financial information about the Reinsurance segment are set forth in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Item 8, Note 5, “Segment Information,” to the Consolidated Financial Statements included herein.

Competition

We compete globally in the property and casualty markets.

Our reinsurance operations are structured geographically into business groups: Bermuda, North America and International (Europe, Asia Pacific, Latin America and MENA). The main competitors in each of these markets include the following:

Bermuda – ACE Tempest Reinsurance Ltd, AXIS Specialty Limited ("AXIS"), Arch Reinsurance Limited ("Arch Re"), Montpelier Reinsurance Ltd, PartnerRe Ltd ("Partner"), Platinum Underwriters Bermuda Ltd, Renaissance Reinsurance Limited ("Ren Re"), Validus Reinsurance Ltd ("Validus") and alternative asset managers, such as Nephila Capital Limited.

North America – Alleghany Corporation, Arch Re, Berkshire Hathaway Inc. ("Berkshire"), Everest Re Group Ltd ("Everest"), Hannover Re Group (“Hannover Re”), Munich Re Group (“Munich Re”), Partner, and Swiss Reinsurance America Corporation (“Swiss Re”).
Europe and the rest of world – Arch Re, Asia Capital Reinsurance Group, AXIS, Berkshire, Everest, Hannover Re, IRB-Brazil Re, Lloyd's, Mapfre Re, Munich Re, Partner, Ren Re, SCOR Reinsurance Company, Swiss Re and Validus.

Marketing and Distribution

See “Insurance Segment – Marketing and Distribution” and Item 8, Note 19(a), “Commitments and Contingencies – Concentrations of Credit Risk,” to the Consolidated Financial Statements included herein, for information on our marketing and distribution procedures and information on our major brokers.

Claims Administration

Claims management for the reinsurance operations includes the receipt of loss notifications, review and approval of claims through a claims approval process, establishment of loss reserves for reported claims and approval of loss payments. Case reserves for reported claims are generally established based on reports received from ceding companies with additional case reserves being established when deemed appropriate. Additionally, claims audits are conducted for specific claims and claims procedures at the offices of selected ceding companies, particularly in the United States and the U.K.

Corporate and Other (Including Run-Off Life Operations)

Our general investment and financing operations are reflected in Corporate and Other. In addition, results of our Run-Off Life Operations are reported within "Corporate and Other." We ceased writing new life reinsurance contracts in 2009 and since that time have been managing the run-off of our life reinsurance operations.

As stated above, XLIB entered into a sale and purchase agreement with GreyCastle providing for the sale of 100% of the common shares of its life reinsurance subsidiary, XLLR. As a result, we have ceded the majority of our life reinsurance business to GCLR through the Life Retro Arrangements ("Run-Off Life Operations - Life Retro Arrangements"). This transaction covers a substantial portion of our life reinsurance reserves. At December 31, 2014, gross future policy benefit reserves relating to the Run-Off Life Operations were approximately $4.7 billion, of which we retained approximately $0.4 billion ("Run-Off Life Operations - not subject to Life Retro Arrangements"), after consideration of our future policy benefit reserves recoverable from GCLR of $4.3 billion.

The Run-Off Life Operations - Life Retro Arrangements were, prior to June 30, 2014, reported within the Life operations segment. Subsequent to the transaction, we no longer consider the Run-Off Life Operations to be a separate operating segment, and the results of the Run-Off Life Operations are reported within "Corporate and Other." Prior period information has been recast to reflect the current presentation. For a further discussion, see Item 8, Note 3, "Sale of Life Reinsurance Subsidiary," to the Consolidated Financial Statements included herein.

The Run-Off Life Operations provided life reinsurance on business written by life insurance companies, principally to help them manage mortality, morbidity, survivorship, investment and lapse risks. The products offered included a broad range of underlying lines of life insurance business, including term assurances, group life, critical illness cover, immediate annuities, disability income, and short-term life, accident and health business. The Run-Off Life Operations covered a range of geographic markets, with an emphasis on the U.K., the United States, Ireland and Continental Europe.

Unpaid Losses and Loss Expenses

Loss reserves are established due to the significant periods of time that may lapse between the occurrence, reporting and payment of a loss. To recognize liabilities for unpaid losses and loss expenses, we estimate future amounts needed to pay claims and related expenses with respect to insured events. Our reserving practices and the establishment of any particular reserve reflect our judgment concerning sound financial practice and do not represent any admission of liability with respect to any claim. Unpaid losses and loss expense reserves are established for reported claims (“case reserves”) and incurred but not reported (“IBNR”) claims. The nature of our high excess of loss liability and catastrophe business can result in loss payments that are both irregular and significant. Similarly, adjustments to reserves for individual years can be irregular and significant. Such adjustments are part of the normal course of business for us. Certain aspects of our business have loss experience characterized as low frequency and high severity. This may result

in volatility in our results of operations, financial condition and liquidity.
The tables below present the development of our unpaid losses and loss expense reserves on both a net and gross basis. The cumulative redundancy (deficiency) calculated on a net basis differs from that calculated on a gross basis. As different

reinsurance programs cover different underwriting years, net and gross loss experience will not necessarily develop proportionately. The top line of the first table shows the estimated liability, net of reinsurance recoveries, as at the year end balance sheet date for each of the indicated years. This represents the estimated amounts of losses and loss expenses, including IBNR, arising in the current and all prior years that are unpaid at the year end balance sheet date of the indicated year. The first table then shows the re-estimated amount of the previously recorded reserve liability based on experience as of the year end balance sheet date of each succeeding year. The estimate changes as more information becomes known about the frequency and severity of claims for individual years. The cumulative redundancy (deficiency) represents the aggregate change with respect to that liability originally estimated. The lower portion of the first table also reflects the cumulative paid losses relating to these reserves. The second table is similar to the upper portion of the first table but is gross of reinsurance recoveries. Conditions and trends that have affected development of liabilities in the past may not necessarily occur in the future. Accordingly, it may not be appropriate to extrapolate redundancies or deficiencies into the future, based on the tables below. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Cautionary Note Regarding Forward-Looking Statements.”

Analysis of P&C Losses and Loss Expenses Reserve Development Net of Reinsurance Recoverables

(U.S. dollars in millions)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
ESTIMATED LIABILITY FOR UNPAID LOSSES AND LOSS EXPENSES, NET OF REINSURANCE RECOVERABLES	$12,671	$17,200	$17,900	$18,191	$17,686	$17,266	$16,882	$16,984	$17,122	$17,066	$15,942
LIABILITY RE-ESTIMATED AS OF:											
One year later	13,785	17,090	17,475	17,580	17,401	16,893	16,597	16,668	16,833	16,811	
Two years later	13,675	16,828	16,631	17,286	17,027	16,503	16,274	16,440	16,518		
Three years later	13,607	16,155	16,441	16,956	16,639	16,261	16,001	16,120			
Four years later	13,258	16,067	16,064	16,550	16,350	15,941	15,779				
Five years later	13,236	15,796	15,667	16,287	15,982	15,735					
Six years later	13,068	15,448	15,500	15,940	15,756						
Seven years later	12,819	15,248	15,190	15,737							
Eight years later	12,702	15,039	14,988								
Nine years later	12,592	14,935									
Ten years later	12,497										
CUMULATIVE REDUNDANCY (DEFICIENCY)	174	2,265	2,912	2,454	1,930	1,531	1,103	864	604	255	
CUMULATIVE PAID LOSSES, NET OF REINSURANCE RECOVERIES, AS OF:											
One year later	$2,008	$3,437	$3,188	$3,207	$3,436	$3,028	$3,256	$3,366	$3,403	$3,440	
Two years later	3,884	5,759	5,620	5,673	5,848	5,530	5,581	5,870	5,890		

Three years later	5,181	7,590	7,528	7,471	7,860	7,283	7,451	7,676			
Four years later	6,392	8,936	8,787	8,941	9,229	8,757	8,799				
Five years later	7,386	9,882	9,763	9,896	10,290	9,801					
Six years later	8,098	10,636	10,463	10,689	11,098						
Seven years later	8,690	11,139	11,069	11,317							
Eight years later	9,115	11,602	11,548								
Nine years later	9,457	11,997									
Ten years later	9,777										

Analysis of P&C Losses and Loss Expenses Reserve Development Gross of Reinsurance Recoverables

(U.S. dollars in millions)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
ESTIMATED GROSS LIABILITY FOR UNPAID LOSSES AND LOSS EXPENSES	$19,616	$23,598	$22,895	$22,857	$21,650	$20,824	$20,532	$20,614	$20,484	$20,481	$19,353
LIABILITY RE-ESTIMATED AS OF:											
One year later	19,987	23,209	22,458	21,803	21,348	20,509	20,258	20,200	20,166	19,956	
Two years later	19,533	22,937	21,337	21,445	21,094	19,982	19,870	19,894	19,629		
Three years later	19,525	22,139	21,057	21,305	20,605	19,689	19,540	19,372			
Four years later	19,153	21,992	20,787	20,853	20,244	19,361	19,148				
Five years later	19,099	21,835	20,350	20,509	19,880	19,008					
Six years later	19,050	21,426	20,117	20,170	19,497						
Seven years later	18,766	21,186	19,823	19,851							
Eight years later	18,605	21,007	19,551								
Nine years later	18,529	20,860									
Ten years later	18,392										
CUMULATIVE REDUNDANCY (DEFICIENCY)	1,224	2,738	3,344	3,006	2,153	1,816	1,384	1,242	855	525	

The following table presents an analysis of our paid, unpaid and incurred losses and loss expenses and a reconciliation of beginning and ending unpaid losses and loss expenses for the years indicated.

Year ended December 31, (U.S. dollars in thousands)	2014	2013	2012
Unpaid losses and loss expenses at the beginning of the year	$20,481,065	$20,484,121	$20,613,901
Unpaid losses and loss expenses recoverable	3,414,735	3,361,703	3,629,940
Net unpaid losses and loss expenses at the beginning of the year	$17,066,330	$17,122,418	$16,983,961
Increase (decrease) in net losses and loss expenses incurred in respect of losses occurring in:			
Current year	3,513,469	4,021,353	4,081,376
Prior years	(255,076)	(289,889)	(315,894)
Total net incurred losses and loss expenses	$3,258,393	$3,731,464	$3,765,482
Exchange rate effects	(561,673)	40,587	156,217
Less net losses and loss expenses paid in respect of losses occurring in:			
Current year	381,008	425,254	416,844
Prior years	3,440,327	3,402,885	3,366,398
Total net paid losses	$3,821,335	$3,828,139	$3,783,242
Net unpaid losses and loss expenses at the end of the year	15,941,715	17,066,330	17,122,418
Unpaid losses and loss expenses recoverable	3,411,528	3,414,735	3,361,703
Unpaid losses and loss expenses at the end of the year	$19,353,243	$20,481,065	$20,484,121

Our net unpaid losses and loss expenses relating to our operating segments at December 31, 2014 and 2013 were as follows:

(U.S. dollars in thousands)	2014	2013
Insurance	$10,967,738	$11,512,569
Reinsurance	4,973,977	5,553,761
Net unpaid losses and loss expenses	$15,941,715	$17,066,330

Current year net losses incurred

Current year net losses incurred decreased by $507.9 million in 2014 as compared to 2013. This was mainly due to lower losses from natural catastrophes as compared to 2013. The decrease was also driven by improvements in the current year loss ratio excluding natural catastrophes in both the Insurance and Reinsurance segments due to the impact of underwriting actions including improved business mix and lower earned premium volumes. Accordingly, the current year loss ratio excluding prior year development decreased by 5.4 loss percentage points as compared to the prior year.

Current year net losses incurred decreased by $60.0 million in 2013 as compared to 2012. This was mainly due to lower losses from natural catastrophes as compared to 2012. Accordingly, the current year loss ratio excluding prior year development decreased by 3.9 loss percentage points as compared to 2012. In addition, the current year loss ratio excluding natural catastrophes improved in both the Insurance and Reinsurance segments due to the impact of underwriting actions including improved business mix, partially offset by a higher level of large non-natural catastrophe property losses in the Insurance segment in 2013 as compared to 2012.

See the Income Statement Analysis at Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” for further information regarding the current year loss ratios for each of the years indicated within each of our operating segments.

Prior year net losses incurred

The following tables present the development of our gross and net losses and loss expense reserves. The tables also show the estimated reserves at the beginning of each fiscal year and the favorable or adverse development (referred to as "prior year development") of those reserves during such fiscal year.

Gross (U.S. dollars in thousands)	2014	2013	2012
Unpaid losses and loss expenses at January 1	$20,481,065	$20,484,121	$20,613,901
Gross (favorable) adverse development of those reserves during the year	(524,715)	(317,753)	(413,764)
Unpaid losses and loss expenses reserves re-estimated at December 31	$19,956,350	$20,166,368	$20,200,137
Net (U.S. dollars in thousands)			
Unpaid losses and loss expenses at January 1	$17,066,330	$17,122,418	$16,983,961
Net (favorable) adverse development of those reserves during the year	(255,076)	(289,889)	(315,894)
Unpaid losses and loss expenses reserves re-estimated at December 31	$16,811,254	$16,832,529	$16,668,067

As different reinsurance programs cover different underwriting years, contracts and lines of business, net and gross loss experience do not develop proportionately. In 2014, gross favorable prior year development exceeded net favorable prior year development in the Insurance segment due to the quota share reinsurance on excess casualty and a significant reduction in a single large event in the U.S. discontinued lines that was heavily ceded. In addition, lower than expected large loss development in the international primary casualty book resulted in a gross release that was largely offset by reductions in the recovery from our excess of loss reinsurance. Gross favorable prior year development was broadly in line with net favorable prior year development for the Reinsurance segment.

In 2013, gross favorable prior year development was broadly in line with net favorable prior year development in total.

In 2012, gross favorable prior year development exceeded net favorable prior development in the Insurance segment due primarily to a significant reduction in a single large event in the International energy book that was heavily ceded.

The following table presents the gross and net (favorable) adverse prior year loss development of our loss and loss expense reserves by operating segment for each of the years indicated:

Gross: (U.S. dollars in thousands)	2014	2013	2012
Insurance	$(369,245)	$(132,825)	$(247,232)
Reinsurance	(155,470)	(184,928)	(166,532)
Total	$(524,715)	$(317,753)	$(413,764)
Net:			
Insurance	$(99,762)	$(102,039)	$(140,066)
Reinsurance	(155,314)	(187,850)	(175,828)
Total	$(255,076)	$(289,889)	$(315,894)

We had net favorable prior year reserve development in property and casualty operations of $255.1 million, $289.9 million and $315.9 million for the years ended December 31, 2014, 2013 and 2012, respectively. See the Income Statement Analysis at Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 8, Note 11, "Losses and Loss Expenses," to the Consolidated Financial Statements included herein, for further information regarding the developments in prior year loss reserve estimates for each of the years indicated within each of our operating segments.

Net loss reserves (disposed) acquired

We did not dispose of or acquire net loss reserves in the years ended December 31, 2014, 2013 and 2012.

Exchange rate effects

Exchange rate effects on net loss reserves in each of the three years ended December 31, 2014, 2013 and 2012 related to our global operations primarily where reporting units have a functional currency that is not the U.S. dollar. Movements in the U.S. dollar gave rise to translation and revaluation exchange movements related to carried loss reserve balances of $561.7 million, $40.6 million and $156.2 million in the years ended December 31, 2014, 2013 and 2012, respectively.

Net paid losses

Total net paid losses were $3.8 billion in each of the years ended December 31, 2014, 2013 and 2012. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” for further information.

Other loss related information

Our net incurred losses and loss expenses include actual and estimates of potential non-recoveries from reinsurers. At December 31, 2014 and 2013, the reserve for potential non-recoveries from reinsurers was $64.4 million and $85.5 million, respectively. For further information, see Item 8, Note 10, “Reinsurance,” to the Consolidated Financial Statements included herein.

Except for certain workers’ compensation (including long term disability) liabilities, and certain bodily injury liability claims emanating from U.K. exposures - predominantly from the U.K. motor liability portfolio, we do not discount our unpaid losses and loss expenses.

We utilize tabular reserving for workers’ compensation (including long-term disability) unpaid losses that are considered fixed and determinable, and discount such losses using an interest rate of 5% in 2014 and 2013. The interest rate approximates the average yield to maturity on specific fixed income investments that support these liabilities. The tabular reserving methodology results in applying uniform and consistent criteria for establishing expected future indemnity and medical payments (including an explicit factor for medical inflation) and the use of mortality tables to determine expected payment periods. Tabular unpaid losses and loss expenses, net of reinsurance, as of December 31, 2014 and 2013 on an undiscounted basis were $515.4 million and $551.6 million, respectively. The related discounted unpaid losses and loss expenses were $266.4 million and $274.6 million as of December 31, 2014 and 2013, respectively.

We record a specific reserve allowance for Periodical Payment Orders (“PPO”) related to bodily injury liability claims. This allowance includes the unpaid losses for claims already settled and notified as PPO as of December 31, 2014, as well as the unpaid losses for claims to be settled in the future. The future care element of the unpaid losses was discounted using an interest rate of 1.5% at both December 31, 2014 and 2013. Unpaid losses and loss expenses, net of reinsurance, as of December 31, 2014 and 2013 on an undiscounted basis were $249.8 million and $262.0 million, respectively. After discounting the future care element, the unpaid losses and loss expenses were $161.0 million and $165.7 million as of December 31, 2014 and 2013, respectively. The movement in net undiscounted unpaid losses and loss expenses between December 31, 2013 and December 31, 2014 was mainly due to foreign exchange rate movements.

Investments

Investment structure and strategy

Our investment operations are managed centrally by our Investment Group. The Risk and Finance Committee (the “RFC”) of the Board of Directors of XL-Ireland (the "XL-Ireland Board") approves overall investment policy and guidelines, and reviews the implementation of the investment strategies on a regular basis.

We seek to generate growth in the book value and net investment income through our investment activities. Our investments strategy strives to balance investment returns against market and credit risk. Our overall investment portfolio is structured to take into account a number of variables including liability profile, local regulatory requirements, business needs, collateral management and risk tolerance.

As described in Item 8, Note 3, "Sale of Life Reinsurance Subsidiary," and Note 6, "Investments," to the Consolidated Financial Statements included herein, in connection with the Life Retro Arrangements, certain fixed maturities were reclassified from held to maturity to available for sale. All of the reclassified securities are included within the Life Funds Withheld Assets, along with certain other available for sale securities as defined in the sale and purchase agreement. For fixed maturities subsequently purchased within the Life Funds Withheld Assets portfolio, we have opted to apply an accounting election (the “fair value option”) to record all changes in the fair value of these investments through earnings, as opposed to other comprehensive income. These investments for which we have elected the fair value option are recorded in our balance sheet as “Fixed Maturities, trading at fair value.”

The Life Funds Withheld Assets are managed pursuant to agreed investment guidelines that meet the contractual commitments of our ceding companies and applicable laws and regulations. All of the investment results associated with the Life Funds Withheld Assets ultimately accrue to GCLR. Because we no longer share in the risks and rewards

of the underlying performance of the supporting invested assets, we separate the Life Funds Withheld Assets from the rest of our investments. The remaining discussion in this section excludes the Life Funds Withheld Assets.

Strategic Asset Allocation

The investment strategy for the investment portfolio is based on the strategic asset allocation (“SAA”) process, which establishes a benchmark (“SAA Benchmark”) that is constructed to maximize company value, subject to risk tolerance of management, approval by the RFC on behalf of the XL-Ireland Board and various constraints, e.g., liability profile, business needs, collateral management and regulatory requirements. This process involves an integrated and stochastic model that includes our financial condition, reserve volatility and loss payout patterns, premium expense and loss ratio projections and correlations among assets, liabilities and economic variables such as inflation.

As part of the implementation of our SAA Benchmark, we employ a comprehensive framework of investment decision authorities (“Authorities Framework”). The objective of the Authorities Framework is to ensure that the risk profile of our investment portfolio is consistent with management’s risk tolerance as reflected in the SAA Benchmark. The Authorities Framework controls active or tactical deviations from the SAA Benchmark. As the magnitude of these deviations increases or the resulting impact on the risk profile of the investment portfolio reaches certain predetermined thresholds, additional levels of authority and approval are required, up to and including the RFC.

The RFC reviews and approves the SAA Benchmark and the Authorities Framework as part of the investment policy. Management approves further detailed investment authorities which integrate the Authorities Framework into our risk governance processes. We have an ongoing process that focuses on optimizing the composition of the investment portfolio relative to the SAA Benchmark. See “Investment Portfolio Structure” for more details.

Prior to the Life Retro Arrangements, separate SAA Benchmarks were established for P&C and Run-Off Life Operations. The assets supporting the Run-Off Life Operations - not subject to Life Retro Arrangements have now been combined with the P&C operations and we report the portfolio return together. During 2015, a transitional approach is being used for the assets supporting the Run-Off Life Operations - not subject to Life Retro Arrangements and in the next SAA study, these assets will be combined into the analysis for a single SAA benchmark.

Investment Portfolio Structure

Our investment portfolio consists of fixed income securities, equities, alternative investments, private investments, derivatives and other investments and cash and cash equivalents. These securities and investments are denominated in U.S. dollar, U.K. sterling, Euro, Swiss franc, Canadian dollar and other foreign currencies.

Our direct use of investment derivatives includes futures, forwards, swaps and options that derive their value from underlying assets, indices, reference rates or a combination of these factors. Our current investment policy allows derivatives to be used in the investment portfolio to reduce risk and enhance portfolio efficiency. Derivatives may not be used if they materially increase our investment risk.

As of December 31, 2014 and 2013, total investments, cash and cash equivalents, accrued investment income, and net receivable (payable) for investments sold (purchased) were approximately $31.1 billion (excluding Life Funds Withheld Assets) and $36.6 billion, respectively.

Functionally, our investment portfolio is divided into two principal components:

1) P&C investment portfolio: The principal objective of the P&C investment portfolio, which is the larger component of the portfolio, is to support our insurance and reinsurance operations, the liabilities of which have some uncertainty as to timing and/or amount. In addition, a smaller portion of the P&C investment portfolio supports corporate operations as well as run-off financial lines business, in which the liabilities have a greater level of certainty and much longer durations than typical P&C business.

The investment strategy for the P&C investment portfolio is based on the SAA process and the portfolio is actively managed relative to the SAA Benchmark within the context of various constraints and the Authority Framework discussed above. The primary performance objective is for the total return of the P&C portfolio to at least match the return of the SAA Benchmark, with expectations for excess returns above the SAA Benchmark within the parameters of our constraints. The second performance objective is capital preservation through managing the risk profile of the investment portfolio within management’s risk tolerance. The third performance objective is achieving the budget for net investment income.

2) Run-Off Life Operations - not subject to Life Retro Arrangements investment portfolio: The second component of the investment portfolio consists of the assets supporting the Run-Off Life Operations - not subject to Life Retro Arrangements. The principal objective of the portfolio is to support these run-off operations.

The investment strategy for these assets is based on asset-liability and credit risk management, consistent with the regulatory capital considerations of the Run-Off Life Operations. Key considerations are managing the assets relative to the duration of the liabilities and maintaining the current (AA-) average credit quality. The primary performance objective for the

Run-Off Life Operations - not subject to Life Retro Arrangements investment portfolio is to achieve a steady credit adjusted book yield in order to maximize embedded value and optimize statutory capital needs.

Use of Alternative Investment Strategies

We have been an active investor in alternative asset classes - principally hedge fund strategies and to lesser extents, private equity, private credit and real asset strategies – for over fifteen years. We believe alternative strategies have an important role to play in both our strategic asset allocation and as tactical deployments when compelling market opportunities arise. Most of our investments in alternative funds are sourced directly by teams within the Investment Group, who perform the initial screening and due diligence as well as the ongoing monitoring of such fund investments. Occasionally, we may work with third-party allocators who have a particular expertise in a sub-sector of alternative strategies to gain exposure to that subsector – typically via a customized portfolio of fund allocations. Depending upon our level of ownership of each individual fund investment, we account for a portion of the portfolio in each alternative asset class as "investment fund affiliates" in accordance with the equity method and the remainder of the portfolio at estimated fair value, with changes in fair value recorded through accumulated other comprehensive income. We manage each allocation to an alternative asset class as a single portfolio of fund investments irrespective of how the individual fund investments are accounted for. All of our alternative fund investments reside in our P&C investment portfolio.

In conjunction with our investing activities in alternative asset classes, we have been making investments in the operating companies of alternative investment managers since the late 1990s. Typically, we combine investment allocations to alternative funds advised by our affiliates with working capital investments into the management companies to acquire minority equity interests in the managers. We recognize equity earnings in investment manager affiliates on our share of the current earnings of these companies (recorded on a three month lagged basis) and on our share of sales proceeds from partial or full sale transactions of such affiliate companies.

Implementation of investment strategy

Although our management within the Investment Group is responsible for implementation of the investment strategy, the day-to-day management of our investment portfolio is outsourced to investment management service providers in accordance with detailed investment guidelines provided and monitored by us. This approach gives us access to top investment talent with specialized skills across a broad range of investment products and provides flexibility to actively manage the structure of the portfolio as dictated by our business needs. Investment management service providers are selected directly on the basis of various criteria including investment style, track record, performance, risk management capabilities, internal controls, operational risk management and diversification implications. The vast majority of our investment portfolio is managed by large, well-established asset management institutions, while a small portion of the portfolio is managed by asset management specialist firms or boutiques. Each investment management service provider may manage one or more portfolios, each of which is generally governed by a detailed set of investment guidelines, including overall objectives, risk limits (where appropriate) and diversification requirements that fall within our overall investment policies and guidelines, including but not limited to exposures to eligible securities, prohibited investments/transactions, credit quality and general concentration limits and fund investments are governed by the terms and conditions applicable to those funds. The Investment Group has a surveillance program to manage the aggregation of individual manager portfolios relative to the SAA Benchmark and Authorities Framework.

Investment performance

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Investment Performance," for discussion of our investment performance.

Investment portfolio credit ratings, duration and maturity profile

It is our policy to operate the combined P&C and Run-Off Life Operations - not subject to Life Retro Arrangements("aggregate") fixed income portfolio with a minimum weighted average credit rating of Aa3/AA-. See Item 1A, "Risk Factors," for a discussion on ratings downgrades. The aggregate credit rating is determined based on the weighted average rating of securities, where the average credit rating, where available, from Standard & Poor's ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch") is allocated to each security. The weighted average credit rating of the aggregate fixed income portfolio was Aa3/AA- as of December 31, 2014 and 2013. U.S. agencies

and Agency RMBS paper, whether with implicit or explicit government support, reflect the credit quality rating of the U.S. government for the purpose of these calculations.

We did not have an aggregate direct investment in a single corporate issuer in excess of 5% of our shareholders' equity as of December 31, 2014 or 2013. Corporate issuers represent our direct exposure to fixed maturities and short-term investments

of the parent issuer and its subsidiaries. These exposures exclude asset and mortgage-backed securities that were issued, sponsored or serviced by the parent and government-guaranteed issues, but do include covered bonds. Covered bonds that are included are senior secured debt instruments issued by financial institutions and backed by over-collateralized pools of public sector or mortgage loans ("Covered Bonds").

The overall duration and currency denomination of the aggregate fixed income portfolio is managed relative to their respective benchmark for the investment portfolio, which incorporates matching currency, and duration within a range, relative to liabilities. Duration is an indicator of the sensitivity of the price of a bond (or a portfolio of bonds) to changes in interest rates, reflecting the percentage change in price for a 100 basis point change in all global yield curves. Management believes that the duration of the aggregate fixed income portfolio is the best single measure of interest rate risk for the aggregate fixed income portfolio.

The maturity profile of the aggregate fixed income portfolio is a function of the maturity profile of estimated loss payments from our liabilities, our capital and expected operating cash flows and, to a lesser extent, the maturity profile of common fixed income benchmarks. For further information on the maturity profile of the fixed income portfolio, see Item 8, Note 6, “Investments,” to the Consolidated Financial Statements included herein.

Enterprise Risk Management

Risk Management Framework

We face strategic and operational risks related to, among others: underwriting activities, financial reporting, changing macroeconomic conditions, investment risks, reserving estimates, changes in laws or regulations, information systems, business interruption and fraud. Our global P&C business, Run-Off Life Operations and investment portfolios each have their own set of risks (see Item 1A, “Risk Factors,” for a discussion of such risks). At times these risks may exhibit greater levels of correlation than might be expected over the longer term due to the presence of, to a greater or lesser degree, some common internal or external risk drivers embedded in our businesses that may manifest themselves simultaneously. An enterprise view of risk is required to identify and manage the consequences of these common risks and risk drivers on our profitability, capital strength and liquidity.

Our enterprise risk management (“ERM”) initiatives are led by the Chief Enterprise Risk Officer (“CERO”), who is a member of our leadership team, and who reports to our Chief Executive Officer. The CERO also acts as a liaison between our Enterprise Risk Committee (“ERC,” as discussed below) and the XL-Ireland Board (or its committees), with respect to risk matters. All of our employees are expected to assist in the appropriate and timely identification and management of risks and to enhance the quality and effectiveness of ERM.

Our ERM framework is designed to allow us to identify and understand material risk concentrations, including concentrations that have unattractive risk/reward dynamics so that prompt, appropriate, corrective or mitigating actions can be taken. To do this, we have risk management committees and processes to serve as points of managerial dialogue and convergence across our businesses and functional areas, to create risk aggregation methodologies, to develop specific risk appetites and to coordinate the identification, vetting and discussion of risk topics and metrics.

As part of our ERM activities, we apply a suite of stress tests, tools, risk indicators, metrics and reporting processes that examine the consequences of low probability/high severity events (including those related to emerging risks) in order to take mitigating actions where required.

Risk Governance

Risk governance relates to the processes by which oversight and decision-making authorities with respect to risks are granted to individuals within the enterprise. Our governance framework establishes accountabilities for tasks and outcomes as well as escalation criteria. Governance processes are designed to ensure that transactions and activities, individually and in the aggregate, are carried out in accordance with our risk policies, philosophies, appetites, limits and risk concentrations, and in a manner consistent with expectations of excellence, of integrity, accountability and client service.

With respect to the responsibilities relating to ERM, the RFC:

- Oversees ERM activities, including the risk management framework employed by management. With respect to the overall risk management framework, the RFC (i) reviews the methodology for establishing our overall risk capacity; (ii) reviews the policies for the establishment of risk limit frameworks, and adherence to such limits; and (iii) reviews and approves enterprise risk limits.

- Oversees our compliance with any significant enterprise risk limits, authorities and policies. The RFC evaluates what actions to take with respect to such enterprise limits, authorities and policies, and approves any exceptions thereto from time to time as necessary.

- Reviews our overall risk profile and monitors key risks across our organization as a whole, which may involve coordination with other committees of the Board from time to time as appropriate.
- Reviews our process controls over model use and development with respect to model risk and model effectiveness, accuracy, and propriety.
- Monitors our risk management performance and obtains reasonable assurance from management that our risk management policies are effective and are being adhered to.

The review of our overall risk appetites and the evaluation of the risk impact of any material strategic decision being contemplated, including consideration of whether such strategic decision is within the risk profile established by us, is conducted by the full Board. “Risk appetites,” as referred to above, are broad statements used to guide our risk and reward preferences over time, all consistent with, among other factors, business prudence, market opportunities, the underwriting pricing cycle and investment climate. Risk appetites are regularly monitored and can change over time in light of the above. See “Risk Appetite Management” below.

Management oversight of ERM is performed, in part, via a centralized management ERC, which is chaired by the CERO. The ERC is comprised of senior management from our businesses and functions and is charged with developing and monitoring enterprise risk policies, risk appetites, risk limits (and compliance with such limits) and risk aggregations, and identifying key emerging risks and ways to mitigate such risks.

In addition to the ERC, we have established a framework of separate yet complementary ERM subcommittees, each focusing on particular aspects of ERM. These subcommittees include:

- Economic Capital Model Committee: This subcommittee oversees the development of economic capital models that support ERM activities, and helps set priorities and manage resources related to such models. It reviews assumptions and related methodologies used within our economic capital models, including assessments of model validation, model control and model risk.
- Liability Risk Committee: This subcommittee supports and assists the ERC’s identification, measurement, management, monitoring and reporting of key underwriting liability and emerging risks.
- Asset Risk Committee: This subcommittee assists the ERC in its responsibilities in relation to governance and oversight of asset-related risks across the Company, including the investment portfolio. Among its activities are (a) involvement in policy decisions on modeling and quantification of risk measurements; and (b) providing an interpretation and assessment of asset-related risks, with a particular focus on market-related risks. Further, the subcommittee is responsible for coordinating on a regular basis with the Credit Risk Committee on asset-related credit risks.
- Credit Risk Committee: This subcommittee develops and implements the metrics and supporting framework for allocation of credit risk capacity across major business units and functions, including the amount and types of credit exposure.
- Country Risk Committee: This subcommittee supports and assists the ERC's identification, measurement, management, monitoring and reporting of country risk to our underwriting activities and functional areas.
- Operational Risk Committee: This subcommittee supports the ERC’s identification, measurement, management and oversight of key operational risks through its oversight of key operational risk management processes and through its review of related operational risk indicators, trends and metrics.

In addition to the above, risk management subcommittees within certain of our segments and businesses function to ensure that risk is managed in accordance with the risk limits, guidelines and tolerances that we have allocated to them.

Risk Appetite Management

Our risk appetite framework guides our strategies relating to, among other things, capital preservation, earnings volatility, capital at risk, operational loss, liquidity standards, claims paying rating and capital structure. This framework also addresses our tolerance to risks from material individual events (e.g., natural or man- made catastrophes such as terrorism), our investment portfolio and realistic disaster scenarios that cross multiple lines of business (and risks related to some or all of the above that may occur concurrently).

In relation to event risk management, we establish net underwriting limits for individual large events as follows:

1. We impose limits for each natural catastrophe peril region at a 1% tail value at risk (“TVaR”) probability. This statistic indicates the average amount of net loss expected to be incurred if a loss above the 1% exceedance probability level has occurred.
2. For each event type other than natural catastrophes, we impose limits at a 1% exceedance probability. If we were to deploy the full limit, for any given event type, there would be a 1% probability that an event would occur during the next year that would result in a net underwriting loss in excess of the limit.
3. We also impose limits for certain other event types at a 0.4% exceedance probability as described in further detail below. If we were to deploy the full limit, for any such given event type, there would be a 0.4% probability that an event would occur during the next year that would result in a net underwriting loss in excess of the limit.

For planning purposes and to calibrate 2015 risk tolerances, we set our underwriting limits as a percent of September 30, 2014 Adjusted Tangible Shareholders’ Equity (“Adjusted Tangible Shareholders’ Equity”). Adjusted Tangible Shareholders’ Equity is defined as Total Shareholders’ Equity less (i) Goodwill and Other Intangible Assets, less (ii) Accumulated Other Comprehensive Income ("AOCI") adjusted for net movements relating to Life Retro Arrangements. These limits may be recalibrated, from time to time, to reflect material changes in Total Shareholders’ Equity that may occur after September 30, 2014, at the discretion of management and as overseen by the Board.
Tiered risk tolerances are set for natural catastrophes, terrorism, other realistic disaster scenarios, country risk, longevity risk and pandemic risk. In setting our risk tolerances we consider such factors as:

- Anticipated risk adjusted returns;
- Strategic risk preferences;
- Relativity to peers;
- Shareholder expectations;
- Robustness of exposure assessment methodology; and
- Projected enterprise loss potential.

Per event 1% TVaR underwriting limits for North Atlantic Windstorm are set at a level not to exceed approximately 22% of Adjusted Tangible Shareholders’ Equity. Per event 1% TVaR underwriting limits for North American Earthquake are set at a level not to exceed approximately 20% of Adjusted Tangible Shareholders’ Equity. Per event 1% TVaR underwriting limits for all other natural catastrophe peril regions are set below the per event 1% TVaR limits described above.
The largest of the per event 1% exceedance probability underwriting limits for terrorism and other realistic disaster scenarios is set at a level not to exceed approximately 13.5% of Adjusted Tangible Shareholders’ Equity; limits at the per event 1% exceedance probability for the remaining terrorism and realistic disaster scenarios are set below this level.
The largest of the per event 1% exceedance probability underwriting limits for country risk is set at a level not to exceed approximately 6% of Adjusted Tangible Shareholders’ Equity.
The largest of the per event 1% exceedance probability underwriting limit for pandemic risk is set at a level not to exceed approximately 6.1% of Adjusted Tangible Shareholders’ Equity.
The largest per event 1% exceedance probability underwriting limit for longevity risk is set at a level not to exceed approximately 1.5% of Adjusted Tangible Shareholders' Equity.
The largest of the per event 0.4% exceedance probability underwriting limits for certain terrorism events is set at a level not to exceed approximately 18% of Adjusted Tangible Shareholders’ Equity; limits at the per event 0.4% exceedance probability for the remaining terrorism event scenarios are set below this level.
The largest per event 0.4% exceedance probability underwriting limit for pandemic risk is set at a level not to exceed approximately 8.1% of Adjusted Tangible Shareholders’ Equity.
The largest per event 0.4% exceedance probability underwriting limit for longevity risk is set at a level not to exceed approximately 2.0% of Adjusted Tangible Shareholders' Equity.

In all instances, the above referenced underwriting limits reflect pre-tax losses net of reinsurance and include inwards and outwards reinstatement premiums related to the specific events being measured. The limits do not contemplate underwriting profits expected to be generated in the absence of catastrophic loss activity.
In setting underwriting limits, we also consider such factors as:

- Correlation of underwriting risk with other risks (e.g., asset/investment risk, operational risk, etc.);
- Model risk and robustness of data;
- Geographical concentrations;
- Exposures at lower return periods;
- Expected payback period associated with losses;
- Projected share of industry loss; and
- Annual aggregate losses for natural catastrophes at various return periods including a 1% exceedance probability and a 1% TVaR level on both a peril region basis and a portfolio basis.

Loss exposure estimates for all event risks are derived from a combination of commercially available and internally developed models together with the judgment of management, as overseen by the XL-Ireland Board. Actual incurred losses may vary materially from our estimates. Factors that can cause a deviation between estimated and actual incurred losses may include:

- Inaccurate assumptions of event frequency and severity;
- Inaccurate or incomplete data;
- Changing climate conditions that may add to the unpredictability of frequency and severity of natural catastrophes in certain parts of the world and create additional uncertainty as to future trends and exposures;
- Future possible increases in property values and the effects of inflation that may increase the severity of catastrophic events to levels above the modeled levels;
- Natural catastrophe models that incorporate and are critically dependent on meteorological, seismological and other earth science assumptions and related statistical relationships that may not be representative of prevailing conditions and risks, and may therefore misstate how particular events actually materialize, causing a material deviation between forecasted and actual damages associated with such events; and
- A change in the judicial climate.

For the above and other reasons, the incidence, timing and severity of catastrophes and other event types are inherently unpredictable and it is difficult to estimate the amount of loss any given occurrence will generate. As a consequence, there is material uncertainty around our ability to measure exposures associated with individual events and combinations of events. This uncertainty can cause actual exposures and losses to deviate from those amounts estimated, which in turn can create a material adverse effect on our financial condition and results of operations and may result in substantial liquidation of investments, possibly at a loss, and outflows of cash as losses are paid. For this reason, we carry capital in addition to that required by the specific limits described even if it is in excess of rating agency and regulatory required capital.
For a further discussion on risk appetite management see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Other Key Focuses of Management.”
Impact of ERM Processes
We believe that our ERM processes improve the quality and timeliness of strategic decisions, enhance the integration of strategic initiatives with the risks related to such initiatives and act as catalysts to improve risk awareness and informed action by us. We believe that the integration of ERM with existing business processes and controls optimizes the risk/reward characteristics of business strategies, enhances our overall risk management culture, and is central to our capital allocation process.
In addition, our ERM processes complement our overall internal control framework by helping to manage an organization of our size and the variety of our businesses, investment activities and geographical reach. However, internal controls and ERM can provide only reasonable, not absolute, assurance that control objectives will be met. As a result, the possibility of material

financial loss remains in spite of our ERM activities. An investor should carefully consider the risks and all information set forth in this report including the discussion included in Item 1A, “Risk Factors,” Item 7A, “Quantitative and Qualitative Disclosure About Market Risk,” and Item 8, “Financial Statements and Supplementary Data.”

Regulation

Our operating subsidiaries are subject to regulation and supervision in each of the jurisdictions in which they are domiciled and licensed to conduct business. Generally, regulatory authorities can have broad supervisory and administrative powers over such matters as licenses, fitness of management, standards of solvency, governance, risk management, material transactions between affiliates, premium rates, policy forms, investments, security deposits, methods of accounting, form and content of financial statements, reserves for unpaid losses and loss adjustment expenses, claims handling, reinsurance, minimum capital and surplus requirements and/or risk based capital standards, dividends and other distributions to shareholders, periodic examinations and annual and other report filings or notifications. See Item 8, Note 25, “Statutory Financial Data,” to the Consolidated Financial Statements included herein. In general, such regulation is for the protection of policyholders rather than shareholders. We cannot predict the potential effect that any new regulations would have on our operating subsidiaries or on our business, results of operations, cash flows or financial condition. See Item 1A, “Risk Factors – The regulatory regimes under which we operate, and potential changes thereto, could have a material adverse effect on our business.”

In addition, XL-Ireland, our ultimate holding company, is domiciled in Ireland. Although XL-Ireland is not an Irish regulated operating entity, the Central Bank of Ireland ("CBI") has previously informed us that it would be our group regulator under Solvency II. Adopted by the European Parliament in April 2009, Solvency II is a European Union ("E.U.") directive covering the capital adequacy and risk management of, and regulatory reporting for, European-based (re)insurers. The Omnibus II directive, which was agreed to by the European Commission, the European Parliament and the Council of Ministers, sets a Solvency II implementation date of January 1, 2016. The CBI has issued interim guidelines on applying the European Insurance and Occupational Pensions Authority (“EIOPA”) guidelines for authorized firms to ensure their eventual readiness for Solvency II, while the Prudential Regulation Authority ("PRA") has issued proposed rules transposing Solvency II requirements into U.K. legislation.

We are also monitoring other regulatory developments such as the International Association of Insurance Supervisors ("IAIS") proposed risk-based global insurance capital standard and group-wide supervisory and regulatory framework for internationally active insurance groups ("IAIGs"). See Item 1A, "Risk Factors - Government and regulatory actions may impact the marketplace generally or us in particular."

As an Irish public company, XL-Ireland is subject to reporting requirements and certain restrictions under Irish company law. See “Management’s Discussion & Analysis of Financial Condition—Holding Company Liquidity” and Item 8, Note 25, “Statutory Financial Data,” to the Consolidated Financial Statements included herein.

A summary of certain regulatory requirements in key jurisdictions in which we operate follows.

Ireland

Our Irish regulated operating subsidiary, XL Re Europe SE, is subject to the regulatory framework established by the CBI. It is required to, among other matters:

- maintain an adequate solvency margin and guarantee fund;
- submit quarterly and annual regulatory returns as well as ad hoc reporting of certain material transactions; and
- obtain regulatory pre-approval of certain transactions, such as payment of dividends or acquisitions and disposals of the ownership/voting rights of (re)insurance companies.

The CBI has minimum competency and fitness and probity requirements that seek to ensure that regulated entities are run, in its view, by those with appropriate professional qualifications or experience, with regulatory pre-approval required for certain key roles. The CBI’s code of corporate governance includes prescriptive rules regarding board role and composition, the establishment and operation of board sub-committees and the approval of risk appetites and the monitoring and reporting of risks. In addition, the CBI has broad supervisory and administrative powers over capital and surplus requirements and the declaration, and payment, of dividends or other distributions. Our Irish operating subsidiary is required to seek prior approval from the CBI to reduce its share capital or to pay dividends.

United Kingdom

Our U.K. regulated operating subsidiaries are regulated by the PRA and the Financial Conduct Authority (“FCA”). The PRA has primary objectives to promote the safety and soundness of the firms it regulates and to ensure that policyholders are appropriately protected, and a secondary objective to promote effective competition in the financial service markets. The FCA aims to ensure that the financial services markets function well with three operational objectives, namely, to secure an appropriate degree of protection for consumers, to protect and enhance the integrity of the U.K. financial system and to promote effective competition in the interests of consumers. The PRA’s Handbook of Rules and Guidance covers all aspects of regulation including capital adequacy, financial and non-financial reporting, payment of dividends and certain other activities of U.K. regulated firms. The PRA and FCA’s Approved Persons regime also subjects certain of our employees and directors to PRA and FCA regulation regarding their “fitness”. Our Lloyd’s managing agency, its managed syndicate and its associated corporate capital vehicle are also subject to Lloyd’s requirements applicable to operating in the Lloyd's market.

Other European Union

Our network of offices in the European Union consists mainly of branches of Irish, U.K. and Bermuda companies and these offices are principally regulated under applicable legislation or directives from their home jurisdictions.

Bermuda

The Insurance Act 1978 of Bermuda and related rules and regulations, as amended (the “Bermuda Act”), regulates our Bermuda (re)insurance operating subsidiaries, which must be registered as (re)insurers by the Bermuda Monetary Authority (the “BMA”). The Bermuda Act imposes on Bermuda (re)insurance companies, solvency and liquidity standards, certain restrictions on the declaration and payment of dividends and distributions, certain restrictions on the reduction of statutory capital, and auditing and reporting requirements, and grants the BMA powers to supervise and, in certain circumstances, to investigate and intervene in the affairs of (re)insurance companies.

Certain of our Bermuda regulated (re)insurance companies are required to file annual audited financial statements prepared in accordance with accounting policies generally accepted in the U.S. ("GAAP") or International Financial Reporting Standards, as well as annual statutory financial returns, annual capital and solvency returns and quarterly financial returns.

Bermuda regulated general business (re)insurers are required to maintain available statutory capital and surplus at a level equal to or in excess of their enhanced capital requirement (“ECR”). The applicable ECR is established by reference to either the Bermuda Solvency Capital Requirement (“BSCR”), which employs a standard mathematical model that can relate more accurately the risks taken on by (re)insurers to the capital that is dedicated to their business, or a BMA-approved internal capital model. The BMA has also established a target capital level (“TCL”) for each (re)insurer equal to 120% of its ECR. While (re)insurers are not required to maintain their statutory capital and surplus at this level, the TCL acts as an early warning tool for the BMA and failure to maintain statutory capital at least equal to TCL will likely result in increased BMA regulatory oversight. Our Bermuda regulated (re)insurers use the BSCR model to calculate their solvency requirements. The implementation of the ECR for Bermuda regulated long-term (re)insurers sets the applicable ECR for XL Re Ltd for the financial year ending 2014 at 75% of the amount determined by the BSCR or an approved internal capital model.

Under the Bermuda Companies Act 1981, as amended, a Bermuda company may not declare or pay a dividend or make a distribution out of contributed surplus if there are reasonable grounds for believing that: (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the company’s assets would thereby be less than its liabilities. Under the Bermuda Act, a Class 4 (re)insurer is prohibited from declaring or paying any dividends of more than 25% of its total statutory capital and surplus unless it certifies to the BMA that it will continue to meet its minimum solvency margin and minimum liquidity ratio. In addition, neither Class 4 (re)insurers (which includes XLIB and XL Re Ltd) nor certain long-term (re)insurers may reduce their total statutory capital by 15% or more unless they have received the prior approval from the BMA. See Item 8, Note 25, "Statutory Financial Data," to the Consolidated Financial Statements included herein, for further information.

The BMA introduced amendments to the Bermuda Act to create a new class of special purpose insurer (“SPI”) specifically to write sophisticated, fully-funded insurance and reinsurance transactions. SPI's are required to file with the BMA annual statutory financial statements but are not required to file an annual loss reserve specialist opinion.

The BMA has the discretion to modify such SPI’s accounting requirements under the Bermuda Act.
Bermuda (re)insurers are required to comply with the BMA's Insurance Code of Conduct which establishes duties, requirements and standards to be complied with to ensure each (re)insurer implements sound corporate governance, risk management and internal controls. Non-compliance with the BMA’s Insurance Code of Conduct could result in intervention by the BMA.

Two of our Bermuda entities are approved for reduced collateral within New York and Florida, respectively. XLIB is qualified for reduced collateral in the state of New York. XL Re Ltd is qualified for reduced collateral in the state of New York as well as the state of Florida. This annual certification permits these two Bermuda subsidiaries to post reduced collateral allowing U.S. ceding companies to take credit for reinsurance on their financial statements.
See also "Solvency II Equivalence" regarding the equivalence assessment of the Bermuda supervisory regime under Solvency II.
United States
In the United States, we are subject to extensive regulation in the jurisdictions in which we conduct our business. The state legislatures and/or state (re)insurance regulators consider or enact laws or regulations that may alter or increase the regulation of (re)insurance companies and (re)insurance holding companies. State laws and regulations that are adopted or amended may be more restrictive than current laws and regulations and may affect our operations and financial condition and could adversely affect our results of operations through lower revenue and/or higher costs of compliance and limit our growth. For example, regulators may choose to restrict the ability of subsidiaries to make payments to their parent companies, reject rate increases or increase the statutory capital requirements of our operating subsidiaries.
There are a number of proposals to amend state insurance laws and regulations in ways that could affect our insurance operating subsidiaries. The National Association of Insurance Commissioners (“NAIC”) has recently adopted or amended model laws on holding company regulation that would provide for supervision of insurers at the corporate group level. Although such changes are only beginning to be considered or adopted by individual state regulators, it can be expected that most state regulators will ultimately adopt them in some form. The various proposals to implement group supervision include uniform standards for insurer corporate governance, group-wide supervision of insurance holding companies, adjustments to risk-based capital calculations to account for group-wide risks and additional regulatory and disclosure requirements for insurance holding companies.
Additionally, the NAIC has undertaken the Solvency Modernization Initiative (“SMI”), which focuses on a review of insurance solvency regulations throughout the U.S. financial regulatory system and will lead to a set of long-term solvency modernization goals. SMI is broad in scope, but the NAIC has stated that its focus will include the U.S. solvency framework, group solvency issues, capital requirements, international accounting and regulatory standards, reinsurance and group regulatory issues.
Currently, our U.S. regulated operating subsidiaries are required to file detailed annual and, in most states, quarterly reports with state insurance regulators in each of the states in which they are licensed or accredited. In addition, these subsidiaries’ operations and accounts are subject to financial condition and market conduct examination at regular intervals by state regulators. The most recent financial condition examination for our seven U.S. property/casualty insurance and reinsurance subsidiaries was completed in June of 2012 and covered the five-year period ended December 31, 2010. The reports issued by the three states of domicile at the time of the examination (New York, Delaware and North Dakota) concluded that all findings from the prior examination had been effectively addressed, and no new findings were reported. Effective July 1, 2013, Indian Harbor Insurance Company, an eligible surplus lines insurer, was re-domiciled from North Dakota to Delaware. XL Life Insurance and Annuity Company, an Illinois-domiciled life insurer, recently underwent a financial conduct examination for the five-year period ended December 31, 2012. No issues were identified in the report issued by the Illinois Department of Insurance in August of 2014.
Our U.S. regulated operating subsidiaries are subject to various state statutory and regulatory restrictions that limit the amount of dividends that may be paid from earned surplus without prior approval from regulatory authorities. These restrictions differ by state, but are generally based on a calculation of the lesser of 10% of statutory surplus or 100% of “adjusted net investment income” to the extent that it has not previously been distributed.
While the U.S. federal government currently does not directly regulate the insurance business in the U.S. (other than for flood and nuclear insurance and reinsurance of losses from terrorism), federal legislation and administrative policies can affect the insurance industry. For example, the future availability of any federal backstop program for qualifying terrorism losses, currently the Terrorism Risk Insurance Program Reauthorization Act of 2015, or modifications of the terms and conditions of such program may affect the insurance industry's ability and capacity to

offer terrorism coverage in the United States. Additionally, in July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) was passed into law. Dodd-Frank requires the creation of a Federal Insurance Office ("FIO") within the Treasury Department that is focused on national coordination of the insurance sector, systemic risk mitigation and international regulatory cooperation. Although the FIO currently does not directly regulate the insurance industry, under Dodd-Frank it has the power to preempt state insurance regulations that are inconsistent with international agreements regarding insurance regulation, subject to certain exceptions. On December 14, 2013, the FIO submitted a report to Congress as required under Dodd-Frank on improving U.S. insurance regulation. The report raises concerns about states' regulation of multi-state insurers and proposes that insurers need to be

supervised on a consolidated basis at the federal level, which would improve uniformity, efficiency and consistency, and would result in uniform supervision of insurance firms with national and global activities. As the FIO does not have regulatory authority, the recommendations in its report could be viewed as advisory in nature. Most suggestions for U.S. federal standards and involvement in insurance regulation would require U.S. Congressional action. Whether the recommendations will be implemented, altered considerably, or delayed for an extended period is uncertain. In December 2014, the FIO issued a report entitled The Breadth And Scope Of The Global Reinsurance Market And The Critical Role Such Market Plays In Supporting Insurance In The United States pursuant to a requirement under Dodd-Frank for FIO to issue a report describing the breadth and scope of the global reinsurance market and the role such market plays in supporting insurance in the United States. This report describes the role global reinsurance provides in supporting the insurance industry in the U.S. and states that the global reinsurance market provides access to the financial strength of reinsurers and to alternative risk transfer capital, thereby assisting insurers in preparing for and responding to catastrophes and natural disasters. In addition, reinsurers are found to assist insurers in stabilizing underwriting experience, increasing underwriting capacity, and facilitating entrance to and exit from markets, thereby helping insurers maintain product pricing that is more available and affordable, which benefits the U.S. economy as a whole. The report states that many global reinsurers and other capital market industry participants operate in the reinsurance market, demonstrating a high degree of substitutability and mobility of risk transfer capital. The report notes that, in light of the importance of the global reinsurance market to U.S. insurers, the Treasury Department and the United States Trade Representative are considering a covered agreement with respect to collateral requirements for reinsurers. A covered agreement would also require U.S. Congressional action. Whether a covered agreement will be implemented or delayed for an extended period of time is uncertain.

Other International Operations

We have a number of regulated operating subsidiaries outside of the European Union, Bermuda and the United States. The degree of regulation in foreign jurisdictions can vary and licenses issued by foreign authorities are subject to modification or revocation for cause by such authorities. Our subsidiaries could be prevented, for cause, from conducting business in certain of the jurisdictions where they currently operate or from writing business emanating from certain jurisdictions. While many countries impose licensing, solvency, auditing and financial reporting requirements, the type and extent of the requirements differ substantially. Key areas where country regulations may differ include: (i) the type of financial reports to be filed; (ii) a requirement to use local intermediaries; (iii) the amount of reinsurance permissible; (iv) the scope of any regulation of policy forms and rates; and (v) the type and frequency of regulatory examinations.

In addition to these requirements, our foreign operations are also regulated in various jurisdictions with respect to currency, amount and type of security deposits, amount and type of reserves, amount and type of local investment and limitations on the share of profits to be returned to policyholders on participating policies. A summary of certain regulatory requirements in Switzerland, Latin America and China follows.

Switzerland

Supervision of our Swiss regulated operating subsidiaries and branches is carried out by the Swiss Financial Market Supervisory Authority (“FINMA”). The supervisory regime currently comprises both Solvency I requirements and Solvency II type requirements (“Swiss Solvency Test”), the latter of which impose higher capital requirements. Furthermore, direct insurers and insurance branches of foreign legal entities operating in Switzerland have to comply with “tied assets” requirements. Reinsurance branches of foreign pure reinsurance companies are exempt from supervision by FINMA and are supervised by the country in which they are domiciled.

In September 2012, FINMA and EIOPA signed a Memorandum of Understanding (“MoU”) regarding cooperation in supervision, in particular for insurance groups with international activities in the European Economic Area (the "EEA") and Switzerland. The MoU creates a formal basis for cooperation in the following areas: group supervision, assistance in the work of EEA and FINMA colleges of supervisors, action required in emergency situations, safeguarding financial stability by monitoring and assessing risks, interconnectedness and conducting stress tests. This MoU will not modify or supersede any laws or regulatory requirements in force and will not affect any arrangements under the MoU that have previously been signed between FINMA and other national supervisory authorities of the EEA.

See also "Solvency II Equivalence" regarding the equivalence assessment of the Swiss supervisory regime under Solvency II.

Latin America
We have both insurance and reinsurance operations in the Latin American region, with local companies writing business in Brazil and Mexico and representative offices in Argentina and Colombia. Other than the Colombia representative office and a services branch in Mexico, all the legal entities in the region are subsidiaries. In regions other than Brazil and Mexico, we act as a foreign reinsurer. Nearly all regulators in the Latin America region require foreign reinsurers to be registered or licensed for local cedants to place business with them.
The extent of regulation in the region varies significantly in the countries in which we conduct business. Typically, each country has regulations relating to solvency, auditing, internal controls and financial reporting, but the type and extent of the requirements differs substantially. Other regulations in the region that impact our operations but are not specific to insurance or reinsurance include those relating to foreign currency exchange control, data protection legislation, anti-money laundering and other financial crimes and sanctions.
China
Our Chinese regulated operating subsidiary is regulated by the China Insurance Regulatory Commission (the “CIRC”) under the People’s Republic of China Insurance Law. CIRC’s regulatory regime includes requirements relating to licensing, capital, solvency, reserves, reinsurance, transactions between affiliates, approval and filing of policy wordings and rates, corporate governance, disclosure and periodic reporting. To carry on (re)insurance business in a foreign currency, the subsidiary is also subject to licensing and foreign currency exchange control by the State Administration of Foreign Exchange.
Solvency II Equivalence
The supervisory regimes governing our operating subsidiaries domiciled in each of Bermuda and Switzerland were considered in EIOPA's December 2014 third country equivalence assessments under Solvency II. EIOPA has provisionally advised that both Switzerland and Bermuda meet the criteria set out in EIOPA's methodology, with certain caveats, for equivalence assessments for the following three categories: (i) reinsurance supervision, (ii) third country group supervision, and (iii) calculating group solvency.
The European Commission (“Commission”), having considered the advice of EIOPA, is required to submit to the European Parliament and Council a recommendation whether each of Bermuda and Switzerland meets or does not meet the criteria for equivalence assessment in each of the above three categories. With regard to each category, the Commission may recommend that Switzerland and Bermuda should be assessed to have achieved full equivalence or temporary equivalence. The Commission recommendations on full and temporary equivalence (and another category for "provisional equivalence" for countries such as the United States-see below) are expected to be presented in Spring and Autumn on a category by category basis. The European Parliament and Council each have six months from receipt of the European Commission’s recommendation to confirm or reject such findings.
In the event that Bermuda or Switzerland do not obtain full equivalence with respect to all three categories above, we would expect the following to apply but there can be no assurance that this will be the outcome:

- a temporary equivalence finding with respect to reinsurance supervision would allow for the same benefits as full equivalence until December 2020, with a possibility of one additional year;
- a temporary equivalence finding with respect to group supervision would allow for the same benefits as full equivalence until December 2020, with a possibility of one additional year; and
- a provisional equivalence finding with respect to calculating group solvency (a finding of temporary equivalence is not available for this category) would allow the same benefits as full equivalence for ten years, potentially renewable for an additional ten year period.

See Item 1A, "Risk Factors - The regulatory regimes under which we operate, and potential change thereto, could have a material adverse effect on our business", for risks to our business, including in the event that either Bermuda's or Switzerland's supervisory regime is not considered equivalent to the Solvency II regime.
The United States is currently expected to receive a provisional equivalence recommendation from the Commission although there is no assurance of this outcome. This finding would allow some companies, not including us currently, to benefit from U.S. local solvency calculations in their group calculations for a ten year period as provided above. This designation is for group solvency calculations only and excludes reinsurance and group supervision.

Employees
At December 31, 2014, we had 4,663 employees. At that date, 314 of our employees were represented by workers' councils and 403 of our employees were subject to industry-wide collective bargaining agreements in several countries outside the United States.
Available Information
The public can read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC. The address of the SEC's website is http://www.sec.gov.
Our website address is http://www.xlgroup.com. The information contained on our website is not incorporated by reference into this Annual Report on Form 10-K or any other of our documents filed with or furnished to the SEC.
We make available free of charge, including through our website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Upon written or oral request, we will promptly deliver, without charge, to any shareholder a copy of the Annual Report on Form 10-K. Requests for copies should be submitted to the Company Secretary at XL Group, 100 Washington Blvd., 6th Floor, Stamford, CT 06902, United States of America or (203) 964-5500.
We have adopted Corporate Governance Guidelines, written charters for each of the Audit Committee, the Management Development and Compensation Committee, the Nominating, Governance and External Affairs Committee and the Risk and Finance Committee, as well as a Code of Conduct and a related Compliance Program. Each of these documents is posted on our website at http://www.xlgroup.com, and each is available in print to any shareholder who requests it by writing to us at Investor Relations Department, XL Group plc, 100 Washington Blvd., 6th Floor, Stamford, CT 06902, United States of America.
We intend to post on our website any amendment to, or waiver of, a provision of our Code of Conduct that applies to our Chief Executive Officer, Chief Financial Officer and Corporate Controller or persons performing similar functions and that relates to any element of the code of ethics definition set forth in Item 406 of Regulation S-K under the Securities Act of 1933, as amended.
We intend to use our website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Such disclosures will be included on the website in the "Investor Relations" section. Accordingly, investors should monitor such portions of our website, in addition to following our press releases, SEC filings and public conference calls and webcasts.

ITEM 1A. RISK FACTORS

Any of the following risk factors could have a significant or material adverse effect on our business, financial condition, results of operations and/or liquidity, in addition to the other information contained in this report. Additional risks not presently known to us or that we currently deem immaterial may also impair our business, financial condition and results of operations.

The occurrence of disasters could adversely affect our financial condition, results of operations, cashflows and prospects.

We have substantial exposure to losses resulting from natural and man-made disasters and other catastrophic events. Both our underwriting limits for (re)insurance policies covering such losses and our exposure to such losses are expected to significantly increase following the Acquisition. Catastrophes can be caused by various events, including hurricanes, earthquakes, floods, hailstorms, explosions, severe weather, tsunamis, fires, war and acts of terrorism. Changing climate conditions may add to the unpredictability and frequency of natural disasters in certain parts of the world and create additional uncertainty as to future trends and exposures. The incidence and severity of catastrophes are inherently unpredictable, and it is difficult to predict the timing of such events with statistical certainty or to estimate the amount of loss any given occurrence will generate.

The occurrence of claims from catastrophic events is likely to result in substantial volatility in our financial condition, results of operations and cash flows for the fiscal quarter or year in which a catastrophic event occurs, as well as subsequent fiscal periods, and could have a material adverse effect on our financial condition and results of operations and our ability to write new business. This risk is exacerbated due to accounting principles and rules that do not permit (re)insurers to reserve for such catastrophic events until they occur. We expect that future possible increases in the values and concentrations of insured property, the effects of inflation and changes in cyclical weather patterns may increase the severity of catastrophic events in the future. Although we attempt to manage our exposure to catastrophic events, a single catastrophic event could affect multiple geographic zones and lines of business and the frequency or severity of catastrophic events could exceed our estimates, in each case potentially having a material adverse effect on our financial condition, results of operations and cash flows. In addition, while we may, depending on market conditions, purchase catastrophe reinsurance and retrocessional protection, the occurrence of one or more major catastrophes in any given period could result in losses that exceed such reinsurance and retrocessional protection. This could have a material adverse effect on our financial condition and results of operations and may result in substantial liquidation of investments, possibly at a loss, and outflows of cash as losses are paid.

The failure of any of the underwriting risk management strategies that we employ could have a material adverse effect on our financial condition, results of operations and/or liquidity.

We seek to limit our loss exposure by, among other things, writing a number of our reinsurance or retrocession contracts on an excess of loss basis, adhering to maximum limitations on reinsurance written in defined geographical zones, limiting program size for each client and prudently underwriting each program written. In addition, in the case of proportional treaties, we generally seek to use per occurrence limitations or loss ratio caps to limit the impact of losses from any one event. We cannot be sure that all of these loss limitation methods will have the precise risk management impact intended. For instance, although we also seek to limit our loss exposure by geographic diversification, geographic zone limitations involve significant underwriting judgments, including the determination of the area of the zones and the inclusion of a particular policy within a particular zone’s limits. Underwriting involves the exercise of considerable judgment and the making of important assumptions about matters that are inherently unpredictable and beyond our control, and for which historical experience and probability analysis may not provide sufficient guidance. The failure of any of the underwriting risk management strategies that we employ could have a material adverse effect on our financial condition, results of operations and cash flows. Also, we cannot provide assurance that various provisions of our policies, such as limitations or exclusions from coverage or choice of forum, will be enforceable in the manner that we intend and disputes relating to coverage and choice of legal forum may arise, which could materially adversely affect our financial condition and results of operations.

The insurance and reinsurance industries are historically cyclical and we may experience periods with excess underwriting capacity and unfavorable premium rates.

The insurance and reinsurance industries have historically been cyclical, characterized by periods of intense price competition due to excess underwriting capacity as well as periods when shortages of capacity permitted favorable premium levels. An increase in premium levels is often followed by an increasing supply of insurance and reinsurance capacity, either by capital provided by new entrants or by the commitment of additional capital by existing insurers or reinsurers, which may cause prices to decrease. Either of these factors could lead to a significant reduction in premium rates, less favorable policy terms and conditions and fewer submissions for our underwriting services. In addition to these considerations, changes in the frequency and severity of losses suffered by insureds and insurers may affect the cycles of the insurance and reinsurance industries significantly.

A downgrade or potential downgrade in our financial strength and credit ratings by one or more rating agencies could materially and negatively impact our business, financial condition, results of operations and/or cash flows.

As our ability to underwrite business is dependent upon the quality of our claims paying and financial strength ratings as evaluated by independent rating agencies, a downgrade by any of these institutions could cause our competitive position in the insurance and reinsurance industry to suffer and make it more difficult for us to market our products.

A downgrade below “A-” of our principal insurance and reinsurance subsidiaries by either S&P or A.M. Best Company (“A.M. Best”), which is three notches below the current S&P financial strength rating of “A+” (Stable) and two notches below the A.M. Best financial strength rating of “A” (Stable), may trigger termination provisions in a significant amount of our assumed reinsurance and retrocessional agreements and may potentially require us to return unearned premium to cedants or post additional collateral. In addition, a material reduction in our shareholders’ equity may trigger termination provisions or require us to post additional collateral in a majority of our assumed reinsurance agreements. While the amount of reduction necessary to trigger such termination provisions varies from agreement to agreement, such provisions are generally triggered by a reduction in the range of 20 to 50 percent. Whether a client would exercise its termination rights after such a downgrade or decline in shareholders' equity would likely depend on, among other things, the reasons for the downgrade or decline, the extent of the downgrade or decline, prevailing market conditions, the degree of unexpired coverage, and the pricing and availability of replacement reinsurance coverage. Based on premium value, approximately 67% of our in force reinsurance contracts at January 1, 2015 contained provisions allowing clients to terminate those contracts upon a decline in our ratings to below “A-.”

In the event of such a downgrade, we cannot predict whether or how many of our clients would actually exercise such termination rights or the extent to which any such terminations would have a material adverse effect on our financial condition, results of operations, cash flows or future prospects or the market price for our securities. A downgrade could also result in both a substantial loss of business for us, as ceding companies and brokers that place such business may move to other insurers and reinsurers with higher ratings, and the loss of key employees. In addition, due to collateral posting requirements under our letter of credit and revolving credit facility agreements, such a downgrade may require the posting of cash collateral in support of certain “in use” portions of these facilities (see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources,” included herein). Specifically, a downgrade below “A-” by A.M. Best would constitute an event of default under the Company’s two largest credit facilities and may trigger such collateral requirements. In certain limited instances, such downgrades may require us to return cash or assets to counterparties or to settle derivative and/or other transactions with the respective counterparties.

In addition to the financial strength ratings of our principal insurance and reinsurance subsidiaries, various rating agencies also publish credit ratings for XL-Cayman. Credit ratings are indicators of a debt issuer’s ability to meet the terms of debt obligations in a timely manner, are part of our overall funding profile and affect our ability to access certain types of liquidity. Downgrades in our credit ratings could have a material adverse effect on our financial condition and results of operations and cash flows in a number of ways, including adversely limiting our access to capital markets, potentially increasing the cost of debt or requiring us to post collateral.

The sovereign debt crisis in Europe and concerns regarding the instability of Euro-zone countries could have a material adverse effect on our business, financial condition and results of operations.

Global markets and economic conditions have in the past been negatively impacted by the uncertainty relating to the level of sovereign debt of various E.U. member states, the ability of those countries to service their sovereign debt obligations and the stability of financial institutions operating within those E.U. member states. This uncertainty has resulted and could in the future result in volatile bond yields on the sovereign debt of E.U. member states and on other European-related corporate debt held within our investment portfolio and could have material adverse impacts on financial markets and economic conditions in the E.U. and throughout the world. In addition, downgrades of sovereign debt could bring down the average credit rating quality of our investment portfolio.

The interdependencies among European economies and financial institutions and between such European economies and financial institutions and those of the rest of the world have also exacerbated concern regarding the stability of European financial markets generally and certain institutions in particular. One or more Euro-zone countries could come under increasing pressure to leave the European Monetary Union or the European Union, or the Euro as the

single currency of the Euro-zone could cease to exist if the European Monetary Union were dissolved. These or other actions could ultimately result in the European Union ceasing to exist. Any of these developments, or the perception that any of these developments are likely to occur, could lead to severe economic recession or depression. If one or more significant countries abandon the Euro or the European Monetary Union dissolves, it may result in uncertainty with respect to the terms, value or enforceability of certain bonds, instruments or contracts, which could result in a material loss to us. Similarly, if a country leaving the Euro-zone imposes currency controls, such controls may have a material adverse impact on the value of and our ability to withdraw funds from that country.

Given the extent of our European operations, including that XL-Ireland has its registered office in Ireland, and our European investment holdings, clients and counterparties, persistent volatility in the European financial markets, or the failure of any significant European financial institution arising from the wider implications of a crisis, even if not an immediate counterparty to us, could have a material adverse impact on our business, investment portfolio, liquidity or financial performance. A future Euro-zone sovereign debt crisis could lead to political uncertainty, material changes to tax policies of Euro-zone countries, financial turmoil and social unrest, which could affect the successful implementation of stability measures. Sovereigns, financial institutions and companies may become subject to liquidity shortages and be unable to obtain refinancings or new fundings, leading to an increased risk of a default on their existing debt, and measures to reduce debt levels and fiscal deficits could result in a further slowdown of or negative economic growth.

For a discussion of the risks to our business during or following a financial market disruption and risks to our investment portfolio, see the risk factor entitled “We are exposed to significant capital markets risk related to changes in interest rates, credit spreads, equity prices and foreign exchange rates as well as other investment risks, which may adversely affect our results of operations, financial condition or cash flows.” For a discussion of risks associated with the United States’ credit rating, see the risk factor entitled “Downgrading of the United States’ credit rating could have a material adverse effect on our business, financial condition and results of operations.”

Our efforts to develop new products or expand in targeted markets may not be successful and may create enhanced risks.

Our business initiatives involve developing new products or expanding existing products in targeted markets. This includes the following efforts, from time to time, to protect or profitably grow market share:

- We may develop products that insure risks we have not previously insured or contain new coverage or coverage terms.
- We may refine our underwriting processes.
- We may seek to expand distribution channels.
- We may focus on geographic markets within or outside of the United States where we have had relatively little or no market share or operating history.
- We may engage in insurance-linked securities and other reinsurance capital markets transactions, either alone or with third party investors.

We may not be successful in introducing new products or expanding in targeted markets and, even if we are successful, these efforts may create enhanced risks. Among other risks:

- Demand for new products or in new markets may not meet our expectations.
- To the extent we are able to market new products or expand into new markets, our risk exposures may change, and the data and models we use to manage such exposures may not be as sophisticated as those we use in existing markets or with existing products. This, in turn, could lead to losses in excess of our expectations.
- Efforts to develop new products or markets have the potential to create or increase distribution channel conflict.
- In connection with the addition of new products to existing coverages or the conversion of existing policyholders to a new product, some policyholders' pricing may increase, while the pricing for other policyholders may decrease, the net impact of which could negatively impact retention and margins.
- To develop new products or markets, we may encounter unanticipated operational issues or unanticipated coverage risks, or we may need to make substantial capital and operating expenditures, which may also negatively impact results.

If our efforts to develop new products or expand in targeted markets are not successful, our results could be materially and adversely affected.

We are exposed to significant capital markets risk related to changes in interest rates, credit spreads, equity prices and foreign exchange rates as well as other investment risks, which may adversely affect our results of operations, financial condition or cash flows.

Our operating results are affected by the performance of our investment portfolio. Our assets are invested by a number of investment management service providers under the direction of the Company’s management within the Investment Group in accordance, in general, with detailed investment guidelines set by us under the oversight of the RFC, and

established in accordance with our SAA framework for our investment portfolio. Although our investment policies stress diversification of

risks and conservation of principal and liquidity, our investments are subject to market-wide risks, as noted below, and fluctuations, as well as to risks inherent in particular securities. We are exposed to significant capital markets risks related to changes in interest rates, credit spreads and defaults, market liquidity, equity prices and foreign currency exchange rates. Our consolidated results of operations, financial condition or cash flows could be adversely affected by realized losses, impairments and changes in unrealized positions as a result of significant continued market volatility, changes in interest rates, changes in credit spreads and defaults, a lack of pricing transparency, a reduction in market liquidity, declines in equity prices, and the strengthening or weakening of foreign currencies against the U.S. dollar. Levels of write-down or impairment are impacted by our assessment of the intent to sell securities that have declined in value as well as actual losses as a result of defaults or deterioration in estimates of cash flows. We periodically review our investment portfolio structure and strategy. If, as a result of such review, we determine to reposition or realign portions of the investment portfolio and sell securities in an unrealized loss position, we will incur an other than temporary impairment charge. Any such charge may have a material adverse effect on our results of operations and business.

For the year ended December 31, 2014, we incurred net realized and unrealized investment gains and losses, as described in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included herein. We continue to closely monitor current market conditions and evaluate the long term impact of the market on all of our investment holdings. Depending on market conditions, we could incur additional realized and unrealized losses in future periods, which could have a material adverse effect on the Company's results of operations, financial condition and business.

Our exposure to interest rate risk relates primarily to the market price and cash flow variability of fixed income instruments that are associated with changes in interest rates. Our investment portfolio contains interest rate sensitive instruments, such as fixed income securities, which have been and may continue to be adversely affected by changes in interest rates from central bank monetary policies, domestic and international economic and political conditions and other factors beyond our control. A rise in interest rates would increase the net unrealized loss position of our investment portfolio, which would be offset by our ability to earn higher rates of return on funds reinvested over time. Conversely, a decline in interest rates would decrease the net unrealized loss position of our investment portfolio, which would be offset by lower rates of return on funds reinvested. We maintain an investment portfolio with diversified maturities that has a weighted average duration that is determined in accordance with its SAA Benchmark based on a dynamic financial analysis of investment assets and liabilities, and that is intended to maximize the Company's enterprise value subject to accounting, regulatory, capital and risk tolerances. The portion of the portfolio supporting our Run-Off Life Operations - not subject to Life Retro Arrangements is rebalanced regularly to reflect an explicit asset-liability management process. However, our estimates of the time and size of our estimated loss payment profile may be inaccurate and despite stochastic investment portfolio modeling, we may be forced to liquidate investments prior to maturity at a loss in order to cover liabilities. In sum, we are economically exposed to interest rate risk on our capital and to the extent that our investment portfolio maturities are a poor hedge of actual liability loss payments.

Our exposure to credit spread risk relates primarily to the market price associated with changes in prevailing market credit spreads and the impact on our holdings of spread products such as corporate and structured and credit-sensitive government-related securities. Approximately 3.0% of our aggregate fixed income portfolio consists of below investment-grade high yield fixed income securities. These securities have a higher degree of credit or default risk and a greater exposure to credit spread risk. Certain sectors within the investment and below investment grade fixed income market, such as structured and corporate credit, may be less liquid in times of economic weakness or market disruptions. Our procedures to monitor the credit risk and liquidity of our invested assets in general and those impacted by recent credit market issues specifically may not protect us during periods of economic weakness or periods of turmoil in capital markets from default losses in both our investment grade and below investment grade corporate and structured holdings. This may result in a material reduction of net income, capital and cash flows.

We invest a portion of our investment portfolio in common stock or equity-related securities, including alternative funds, private equity funds and other funds. The value of these assets fluctuates, due to changes in the equity and credit markets along with other factors. In times of economic weakness, the market value and liquidity of these assets

may decline, and may negatively impact net income, capital and cash flows. In addition, certain of the products provided by our Run-Off Life Operations offer fixed guaranteed returns while debt and equity yields may continue to decline. In addition, the amount of earnings from alternative funds, private investment funds and other funds are not earned evenly across the year, or even from year to year. As a result, the amount of earnings that we record from these investments may vary substantially from quarter to quarter. The timing of distributions from such private investment funds depends on particular events relating to the underlying investments. The ability of an alternative fund to satisfy any redemption request from its investors depends on the underlying liquidity of the alternative fund’s investments. As a result, earnings, distributions and redemptions from these two asset classes may be more difficult to predict, and, if such funds are unable to satisfy our redemption requests, our results of operations, financial condition and cash flows may be adversely impacted. As alternative funds, private investment funds and other funds are collective investment vehicles managed by third parties, we do not control the proceeds once we make our investments, thus subjecting us to a higher level of fraud risk than is the case with our fixed income and equity holdings.

A portion of our investment portfolio is comprised of securities of foreign companies. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed corporate, contract and bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility. These risks are likely to be more pronounced for investments in companies located in emerging markets.

Although the majority of our investments are U.S. dollar denominated, a portion of our investments are denominated in other currencies. In addition, many of our non-U.S. subsidiaries maintain both assets and liabilities in currencies different than their functional currency, which exposes us to changes in currency exchange rates.

The functional currencies of our principal insurance and reinsurance subsidiaries include the U.S. dollar, U.K. sterling, the Euro, the Swiss franc and the Canadian dollar. Exchange rate fluctuations of one currency relative to one or more other currencies may materially impact our financial position, results of operations and cash flows.

In addition, locally-required capital levels are invested in local currencies in order to satisfy regulatory requirements and to support local insurance operations regardless of currency fluctuations. Foreign exchange rate risk is reviewed as part of our risk management process and we utilize derivative instruments such as futures, options and foreign currency forward contracts to, among other things, manage our foreign currency exposure. It is possible that these instruments will not effectively mitigate all or a substantial portion of our foreign exchange rate risk, which could adversely impact the Company’s financial position, results of operations and cash flows.

The determination of the amount of other than temporary impairments taken on our investments is based on subjective valuation judgments and could materially impact our financial position and results of operations.

Our management periodically reviews and assesses our portfolio to determine if other-than-temporary impairments should be recognized on our investments. This review includes methodologies, estimations and assumptions that are subjective and open to different interpretations. The determination of the amount of other-than-temporary impairments recognized varies by investment type and is based on an evaluation of inherent risks associated with each asset class as well as an analysis on a security by security basis. Our evaluations and assessments are revised as conditions change and new information becomes available.

There are risks and uncertainties associated with determining whether declines in the fair value of investments are other-than-temporary. These include, among others, subsequent changes in general economic conditions as well as specific business conditions affecting particular issuers, our liability profile, subjective assessment of issue-specific factors (seniority of claims, collateral value, etc.), future financial market effects, stability of foreign governments and economies, future rating agency actions and significant disclosure of accounting, fraud or corporate governance issues that may adversely affect certain investments. During periods of market disruption, it may also be more difficult to value certain securities if trading becomes less frequent or market data less observable. There may also be certain asset classes that become illiquid due to the financial environment. In addition, significant assumptions and management judgment are involved in determining if the decline is other-than-temporary. If management determines that a decline in fair value is temporary, then a security’s value is not written down at that time. However, there are potential effects upon our future earnings and financial position should management later conclude that some of the current declines in the fair value of the investments are other-than-temporary declines.

Our management may not have assessed the correct amount of impairments to be taken in our financial statements and additional impairments may need to be recognized in the future, which could materially impact our financial position or results of operations. Historical trends may not be indicative of future impairments.

Certain of our investments may be illiquid or are in asset classes that have in times of market stress experienced significant market valuation fluctuations.

We hold certain investments that may lack liquidity or for which the availability of prices or inputs may be reduced in periods of market dislocation, such as non-agency residential mortgage-backed and collateralized debt obligations securities. Even some of our high quality assets have been more illiquid during periods of challenging market conditions. Generally, securities classified as Level 3 pursuant to the fair value hierarchy set forth in authoritative

accounting guidance over fair value measurements may be less liquid, may be more difficult to value, requiring significant judgment, and may be more likely to result in sales at materially different amounts than the fair values determined by management.

If we require significant amounts of cash on short notice in excess of normal cash requirements or are required to post or return collateral in connection with certain of our reinsurance contracts, credit agreements, derivative transactions or our invested portfolio, we may have difficulty selling these investments in a timely manner, be forced to sell them for less than we otherwise would have been able to realize, or both.

The reported values of our relatively illiquid types of investments and, in certain circumstances, our high quality, generally liquid asset classes, do not necessarily reflect the lowest current market bid price for the asset. If we were forced to sell certain of our assets in the market, we may not be able to sell them for the prices at which we have recorded them and we may be forced to sell them at significantly lower prices, particularly at times of extreme market illiquidity. Any such sales could adversely impact the Company’s financial position.

If actual claims exceed our loss reserves, or if changes in the estimated levels of loss reserves are necessary, our financial results and cash flows could be adversely affected.

Our results of operations and financial condition depend upon our ability to assess accurately the potential losses associated with the risks that we insure and reinsure. We establish reserves for unpaid losses and loss adjustment expense (“LAE”) liabilities, which are estimates of future payments of reported and unreported claims for losses and related expenses with respect to insured events that have occurred. The process of establishing reserves for property and casualty claims can be complex and is subject to considerable variability, as it requires the use of informed estimates and judgments. Actuarial estimates of unpaid loss and LAE liabilities are subject to potential errors of estimation, which could be significant, due to the fact that the ultimate disposition of claims incurred prior to the date of such estimation, whether reported or not, is subject to the outcome of events that have not yet occurred. Examples of these events include the accuracy of the factual information on which the estimates were based, especially as estimates develop, jury decisions, court interpretations, legislative changes, changes in the medical condition of claimants, public attitudes, and economic conditions such as inflation.

Inflation in relation to medical costs, construction costs and tort issues in particular impact the property and casualty industry. However, broader market inflation also poses a risk of increasing overall loss costs. The impact of inflation on loss costs could be more pronounced for those lines of business that are considered “long tail” such as general liability, worker's compensation and professional liability, as they require a relatively long period of time to finalize and settle claims for a given accident year. Changes in the level of inflation could also result in an increased level of uncertainty in our estimation of loss reserves, particularly for long tail lines of business. The estimation of loss reserves may also be more difficult during times of adverse economic conditions due to unexpected changes in behavior of claimants and policyholders, including an increase in fraudulent reporting of exposures and/or losses, reduced maintenance of insured properties or increased frequency of small claims.

Similarly, the actual emergence of claims for life business may vary from the assumptions underlying the policy benefit reserves.

We have an actuarial staff in each of our operating segments and a Chief Actuary who regularly evaluates the levels of loss reserves, taking into consideration factors that may impact the ultimate losses incurred. Any such evaluation could result in future changes in estimates of losses or reinsurance recoverable and would be reflected in our results of operations in the period in which the estimates are changed. Losses and LAE, to the extent that they exceed the applicable reserves, are charged to income as incurred. The reserve for unpaid losses and LAE represents the estimated ultimate losses and LAE less paid losses and LAE, and comprises case reserves and IBNR. During the loss settlement period, which can span many years in duration for casualty business, additional facts regarding individual claims and trends often will become known and case reserves may be adjusted by allocation from IBNR without any change in the overall reserve. In addition, application of statistical and actuarial methods may require the adjustment of the overall reserves upward or downward from time to time. Accordingly, the ultimate settlement of losses may be significantly greater than or less than reported loss and loss expense reserves.

The effects of emerging claim and coverage issues on our business are uncertain.

Changes to industry practices of legal, judicial, social, political, legislative or other environmental conditions or disruptions that affect businesses' continuity and interdependencies (including supply chain dependencies) could cause unexpected issues related to claim and coverage as well as additional forms of loss experience to emerge. These issues may adversely affect our business by either expanding coverage beyond our underwriting intent or by increasing the number or size of claims, such as the effects that disruptions in the credit markets could have on the number and size of reported claims under directors and officers liability insurance (“D&O”) and professional liability insurance lines of business. In some instances, these changes may not become apparent until sometime after we have issued the insurance or reinsurance contracts that are affected by the changes. Historically such claims and coverage issues have

occurred at heightened levels during periods of very soft market conditions, which often reflect an inflection point in the typical cycle of insurance industry market conditions. In addition, our actual losses may vary materially from our current loss estimates based on a number of factors, including receipt of additional information from insureds or brokers, the attribution of losses to coverages that had not previously been considered as exposed and inflation in repair costs due to additional demand for labor and materials. As a result, the full extent of liability under an insurance or reinsurance contract may not be known for many years after such contract is issued and a loss occurs.

Governmental and regulatory actions may impact the marketplace generally or us in particular.

In response to the financial crises that affected the banking system and financial markets and going concern threats to financial institutions, there were numerous regulatory and governmental actions in the United States, the U.K. and the Euro-zone, among other countries. The purpose of these legislative and regulatory actions was to stabilize the U.S. and international financial markets, improve the flow of credit, increase employment levels and foster an economic recovery.

Under Dodd-Frank, the Financial Stability Oversight Council ("FSOC") has issued rules establishing the process and criteria by which companies may be designated as nonbank systemically important financial institutions ("SIFIs") subject to the examination, enforcement and supervisory authority of the FSOC. Similarly, the Financial Stability Board ("FSB"), consisting of representatives of national financial authorities of the G20 nations, has issued a series of frameworks and recommendations intended to produce significant changes in how financial companies, particularly global systemically important financial institutions ("G-SIFIs"), should be regulated. These frameworks and recommendations address issues such as financial group supervision, basic capital requirements and solvency standards, systemic economic risk, corporate governance including compensation, and a host of related issues associated with responses to the financial crisis. In addition, the FSB has directed the International Association of Insurance Supervisors ("IAIS") to create standards relative to these areas for global systemically important insurers ("G-SIIs") and incorporate them within that body's Insurance Core Principles. IAIS is also in the process of developing a comprehensive, group-wide supervisory and regulatory framework for internationally active insurance groups ("IAIGs"), whether or not they are identified as G-SIIs, which will include a quantitative capital standard. The IAIS itself will not be responsible for identifying IAIGs under this framework. Rather, it will set out the criteria and process that will be used by the supervisory colleges to identify IAIGs. While we do not expect that we will be designated as a SIFI, G-SIFI, or G-SII, certain of our competitors may be so designated, which may impact market behavior and/or access to capital. Following the completion of the proposed acquisition of Catlin, we believe that we would meet the criteria to be designated as an IAIG. If designated as an IAIG by the IAIS supervisory college, we may become subject to a proposed international capital standard and enhanced regulatory supervision.

In connection with the Life Retro Arrangements, we hold a number of Tier 1 and Upper Tier 2 hybrid securities issued by financial institutions including those based in the U.S., Europe and the U.K as part of the Life Funds Withheld Assets (See Item 8, Note 3, "Sale of Life Reinsurance Subsidiary," and Note 6, "Investments," to the Consolidated Financial Statements included herein). The terms of the Life Retro Arrangements identify certain events that would entitle the ceding companies to exercise their recapture remedy and the terms upon which such a recapture would occur, in which event such hybrid securities could become part of our investment portfolio assets. There is a risk that, if the capital positions of financial institutions deteriorate further government intervention, particularly nationalization of such institutions, could occur. There is also a risk of regulatory imposed deferral of coupons or decisions by bank management not to call the capital or defer the coupon payments. This may result in losses on those securities. There is also the risk of further downgrades of these or other securities as rating agencies re-evaluate their rating methodologies, which would negatively impact the regulatory capital of the Run-Off Life Operations or the valuation of our investment portfolio assets generally.

In particular, an extended period of stagnant growth combined with low or negative inflation, a continuation of significant deficits and an ongoing period of stimulative monetary policy could lead to a re-emergence of the sovereign debt crisis concerning European countries, including Greece, Italy, Ireland, Portugal and Spain (the "European Periphery Nations"), and related European financial restructuring efforts, may cause the value of the European currencies, including the Euro, to further deteriorate, which in turn could adversely impact Euro-denominated assets held in our investment portfolio or our European book of business. In addition, a European crisis could contribute to instability in global credit markets, as well as the widening of bond yield spreads. Rating agency downgrades on European sovereign debt and concern about the potential default of government issuers or a possible break-up of the European Union could further contribute to this uncertainty. Should governments default on their obligations, there would be a negative impact on both our direct holdings, as well as on non-government issues and financials held within the country of default. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations–Balance Sheet Analysis–European Sovereign Debt Crisis" for an analysis of our

fixed maturity portfolio's exposure to European Periphery Nations.

Any such governmental actions or future regulatory initiatives may impact certain investment instruments in our investment portfolio, or our competitive position, business or financial position. If global economic and market conditions become uncertain, volatile, or deteriorate, we may experience material adverse impacts on our results of operations, financial condition and cash flows.

We may be unable to purchase reinsurance and, even if we are able to successfully purchase reinsurance, we are subject to the possibility of being unable to collect reinsurance when due.

We purchase reinsurance for our own account in order to mitigate the volatility that losses impose on our financial condition. Our clients purchase reinsurance from us to cover part of the risk originally written by them. Retrocessional reinsurance involves a reinsurer ceding to another reinsurer, the retrocessionaire, all or part of the reinsurance that the first

reinsurer has assumed. Reinsurance, including retrocessional reinsurance, does not legally discharge the ceding company from its liability with respect to its obligations to its insureds or reinsureds. A reinsurer's or retrocessionaire's insolvency, inability or refusal to make timely payments under the terms of its agreements with us, therefore, could have a material adverse effect on us because we remain liable to our insureds and reinsureds. For further information regarding our reinsurance exposure, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."
From time to time, market conditions may limit or prevent us from obtaining the types and amounts of reinsurance that we consider adequate for our business needs such that we may not be able to obtain reinsurance or retrocessional reinsurance from entities with satisfactory creditworthiness in amounts that we deem desirable or on terms that we deem appropriate or acceptable.
The impairment of other financial institutions could adversely affect us.
We have exposure to counterparties in various industries, including banks, hedge funds and other investment vehicles, and in reinsurance and other transactions, including derivative transactions. Many of these transactions expose us to credit risk in the event our counterparty fails to perform its obligations. Even if we are entitled to collateral when a counterparty defaults, such collateral may be illiquid or proceeds from such collateral when liquidated may not be sufficient to recover the full amount of the obligation. We also have exposure to financial institutions in the form of secured and unsecured debt instruments and equity securities. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."
Since we depend on a few brokers for a large portion of our revenues, loss of business provided by any one of them could adversely affect us.
We market our insurance and reinsurance products worldwide primarily through insurance and reinsurance brokers. AON Corporation, Marsh & McLennan Companies and the Willis Group and their respective subsidiaries each provided significant portions of our gross written premiums for property and casualty operations. Loss of all or a substantial portion of the business provided by one or more of these brokers could have a material adverse effect on our business.
Our reliance on brokers subjects us to credit risk.
In certain jurisdictions, when an insured or ceding insurer pays premiums for policies of insurance or contracts of reinsurance to brokers for further payment to us, such premiums might be considered to have been paid and the insured or ceding insurer will no longer be liable to us for such amounts, whether or not we have actually received the premiums from the broker. In addition, in accordance with industry practice and contract terms, we generally pay amounts owed on claims under our reinsurance contracts to brokers, and these brokers, in turn, pay these amounts over to the clients that have purchased reinsurance from us. Although in some jurisdictions the law is unsettled and depends upon the facts and circumstances of the particular case, if a broker fails to make such a claims payment to the insured or ceding insurer, we generally remain liable to the insured or ceding insurer for that non-payment. Consequently, we assume a degree of credit risk associated with the brokers with whom we transact business. Due to the unsettled and fact-specific nature of the law governing these types of scenarios and our lack of historical experience with such risks, we are unable to quantify our exposure to this risk.
We are subject to a number of risks associated with the global nature of our business.
A material portion of our revenues is derived from our clients in Europe, North America and Bermuda. Weak demand or market disruption in these regions could have a material adverse impact on our results of operations. We have also continued to pursue opportunities in other countries, including in developing markets such as Asia, Africa and Latin America. Differing economic conditions and patterns of economic growth and contraction in the regions in which we operate could make it more difficult to forecast accurately product demand and effectively develop business, which could adversely affect our results of operations.
In conducting business in developing markets we are subject to a number of significant risks. These risks include restrictions such as price controls, capital controls, exchange controls, ownership limits and other restrictive governmental actions, which could have an adverse effect on our business and our reputation. The occurrence of one or more of these or other risks in one country may affect our operations in another country or countries. In addition, some countries, particularly developing economies, have laws and regulations that lack clarity and, even with local

expertise and effective controls, it can be difficult to determine the exact requirements of the local laws. Other risks are less developed forms of government supervision, regulation and legal process including less developed corporate, contract and bankruptcy laws, difficulty in enforcing contractual obligations, and the lack of uniform accounting and auditing standards. Failure to comply with local laws in a particular market could have a significant and negative effect not only on our business in that market but also on our reputation generally.

Other risks involved with conducting business in developing markets include political and social instability, political violence, strikes, riots, kidnap and ransom, civil unrest, expropriation and terrorism as well as greater price volatility of

investment positions, less liquid markets and less available information than is generally the case in developed markets. In addition, competition for skilled employees in developing markets may be intense. These risks may lead to higher than anticipated transaction costs and could have a material adverse effect on our business, financial condition and results of operations.

Downgrading of the United States' credit rating could have a material adverse effect on our business, financial condition and results of operations.

S&P lowered its long-term sovereign credit rating on the United States from "AAA" to "AA+" in August 2011. In addition, both Fitch and Moody's have warned that they may downgrade the U.S. government's sovereign credit rating if future budget negotiations to raise the debt ceiling fail, or if steps are not taken to decrease the U.S.'s debt load. Because of the unprecedented nature of negative credit rating actions with respect to U.S. government obligations, the impact of a further downgrade to the U.S. government's sovereign credit rating or any other further rating actions by any rating agency is inherently unpredictable. Such actions could have material adverse impacts on financial markets and economic conditions in the United States and throughout the world. In turn, this could have a material adverse effect on our business, financial condition and results of operations, including with respect to assets in our investment portfolio, as well as assets in trusts or other collateral arrangements posted by or to us. In addition, further downgrades of the United States' credit rating could create broader financial turmoil and uncertainty, and could negatively impact the average credit rating quality of our investment portfolio, which could require us to change our minimum average credit quality target.

Our holding company structure and certain regulatory and other constraints affect our ability to pay dividends, make payments on our debt securities and make other payments.

Our ability to pay dividends or return capital from shareholders' equity is limited by applicable laws and regulations of the various jurisdictions in which our principal operating subsidiaries operate, certain additional required regulatory approvals and financial covenants contained in our letters of credit and revolving credit facilities.

As holding companies, XL-Ireland and XL-Cayman have no operations of their own and their assets consist primarily of investments in subsidiaries. Accordingly, XL-Ireland and XL-Cayman rely on the availability of dividends and other permissible payments from subsidiaries to make principal and interest payments on debt, to pay operating expenses and XL-Ireland ordinary and XL-Cayman preferred shareholder dividends, to make capital investments in subsidiaries and to pay other obligations that may arise from time to time. The payment of dividends by our insurance and reinsurance subsidiaries is regulated under the laws of various countries, including Bermuda, the U.K., Ireland, Switzerland and in the other countries where we have regulated subsidiaries, by certain insurance statutes of various states in the United States in which our insurance and reinsurance subsidiaries are licensed to transact business and by the Society of Lloyd's. For further information regarding regulatory restrictions governing the payment of dividends by the Company's significant property and casualty subsidiaries in Ireland, the U.K., Bermuda and the U.S., see Item 8, Note 25, "Statutory Financial Data," to the Consolidated Financial Statements, and Item 1, "Business – Regulation."

XL-Ireland is subject to certain legal constraints that affect its ability to pay dividends on or redeem or buyback our ordinary shares. While XL-Ireland's Articles of Association authorize the XL-Ireland Board to declare and pay dividends as justified from the profits, under Irish law, XL-Ireland may only pay dividends or buyback or redeem shares using distributable reserves. On July 23, 2010, the Irish High Court approved XL-Ireland's conversion of share premium to $5.0 billion of distributable reserves, subject to the completion of certain formalities under Irish company law. These formalities were completed in early August 2010. As of December 31, 2014, XL-Ireland had $2.9 billion in distributable reserves. In addition, no dividend or distribution may be made unless the net assets of XL-Ireland are not less than the aggregate of its share capital plus undistributable reserves and the distribution does not reduce XL-Ireland's net assets below such aggregate amount.

In addition, XL-Cayman is subject to certain constraints that affect its ability to pay dividends to XL-Ireland or to holders of its preferred shares. Under Cayman Islands law, XL-Cayman may not declare or pay a dividend if there are reasonable grounds for believing that XL-Cayman is, or would after the payment be, unable to pay its liabilities as they become due in the ordinary course of business. Also, the terms of XL-Cayman's preferred shares prohibit it from declaring or paying dividends on the ordinary shares that XL-Ireland holds unless full dividends have been declared and paid on the outstanding preferred shares.

The ability to declare and pay dividends may also be restricted by financial covenants in our letters of credit and revolving credit facilities. We were in compliance with all covenants by significant margins at December 31, 2014, and currently remain in compliance.

We may require additional capital in the future, which may not be available to us on satisfactory terms, on a timely basis or at all.

Our future capital requirements depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover our losses. To the extent that the funds generated by our ongoing operations are insufficient to fund future operating requirements and cover claim payments, or that our capital position is adversely impacted by mark-to-market changes on the investment portfolio, catastrophe events or otherwise, we may need to raise additional funds through financings or curtail our growth and reduce our assets. Any future financing may not be available on terms that are favorable to us, if at all. Our letter of credit facilities are needed to a significant extent for U.S. cedants, and are effective for such cedants only if the banks issuing letters of credit are on the list of NAIC approved banks. If some or all of the issuing banks under our credit facilities cease to be NAIC approved, whether arising from macroeconomic or bank specific events, and we are unable to replace non-approved banks with NAIC approved banks, our letter of credit facility capacity could be significantly diminished. In addition, in the case of a macroeconomic event, such as dissolution of the European Monetary Union, the availability of alternative lending sources may be significantly reduced or non-existent, and the cost of replacement facilities may be significantly increased or prohibitive. Any future equity financings could be dilutive to our existing shareholders or could result in the issuance of securities that have rights, preferences and privileges that are senior to those of our other securities. Our inability to obtain adequate capital could have a material adverse effect on our business, financial condition and results of operations.

Competition in the insurance and reinsurance industries could reduce our operating margins.

The insurance and reinsurance industries are highly competitive. We compete on an international and regional basis with major U.S., Bermudian, European and other international insurers and reinsurers and with underwriting syndicates, some of which have greater financial and management resources and higher ratings than we have. We also compete with new companies that continue to be formed to enter the insurance and reinsurance markets and with alternative products that are intended to compete with reinsurance products, such as insurance/risk-linked securities, catastrophe bonds and derivatives. In recent years capital market participants have been increasingly active in the reinsurance market and markets for related risks. Increased competition could result in fewer submissions, lower premium rates and less favorable policy terms and conditions, which could reduce our margins.

Operational risks, including human or systems failures, are inherent in our business.

Losses can result from operational risk such as, among other things, fraud, errors, failure to document transactions properly or to obtain proper internal authorization, failure to comply with regulatory requirements, information technology failures, failure to appropriately transition new hires or external events. Areas of operational risk can be heightened in discontinued or exited businesses as a result of reduced overall resource allocation and the loss of relevant knowledge and expertise by departing management or employees.

We operate globally, and have two office locations in India that currently provide large portions of our back office support. Our global operations present significant operational risk due to the possibility of political instability, disruptions in communication or information processes, whether due to technical difficulties, power failures or destruction or damage to our offices for any reason. If any disruption occurs, our business continuity and disaster recovery plans may not be effective, particularly if natural or man-made catastrophic events occur, and such disruption could harm our results of operations or our reputation in the marketplace.

We believe that our modeling, underwriting and information technology and application systems are critical to our business, as our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Moreover, our information technology and application systems have been important to our underwriting process and our ability to compete successfully. Our business depends on effective information systems and the integrity and timeliness of the data we use to run our business. Our ability to adequately price products and services, to establish reserves, to provide effective and efficient service to our clients, and to timely and accurately report our financial results also depends significantly on the integrity of the data in our information systems and processes supporting them. Failure of any of these systems or inaccuracies in the data stored therein may jeopardize our ability to service and interact with clients and report to regulators, which could result in significant losses, reputational damage or regulatory non-compliance. In addition, we have licensed certain systems

and data from third parties. We cannot be certain that we will have access to these, or comparable, service providers, or that our information technology or application systems will continue to operate as intended.

We have outsourced the day-to-day management, custody and record-keeping of our investment portfolio to third-party managers, custodians and investment accounting service providers that we believe to be reputable. A major defect in those investment managers' investment management strategy or decision-making could result in management distraction and/or significant financial loss. We also have outsourced claims handling for certain of our business, including portions of our Run-

Off Life Operations, to third parties and we rely on a few brokers for a large portion of our revenues. A major defect in our brokers', claims managers', investment managers' custodians' or investment accounting services providers' internal controls or information and technology systems could result in management distraction or significant financial loss or other negative impact on our business.

Any ineffectiveness in our internal controls, information technology, application systems, investment management (including, without limitation, in setting our investment strategy or in our investment managers' execution of such strategy) or custody and record keeping could have a material adverse effect on our business. Similarly, any ineffectiveness in the internal controls, information technology, application systems, investment management strategy or execution or custody or record keeping of any of our aforementioned vendors could also have a material adverse effect on our business.

System security risks, data protection breaches and cyber attacks could adversely affect our business and results of operations.

Our internal control and information technology and application systems may be vulnerable to threats from computer viruses, natural disasters, unauthorized access, cyber attacks and other similar disruptions. Experienced computer programmers and hackers may be able to penetrate our network's system security measures and misappropriate or compromise confidential information, create system disruptions or cause shutdowns. In addition to our own confidential information, as a (re)insurer, we receive and are required to protect confidential information from clients and other third parties. To the extent any disruption or security breach results in a loss or damage to our data, or inappropriate disclosure of our confidential information or that of others, it could impact our operations, cause significant damage to our reputation, affect our relationships with our customers and clients, lead to claims against us, result in regulatory action and ultimately have a material adverse effect on our business or operations. In addition, we may be required to incur significant costs to mitigate the damage caused by any security breach, or to protect against future damage.

Unanticipated losses from terrorism and uncertainty surrounding the future of the TRIPRA could have a material adverse effect on our financial condition, results of operations and cash flows.

The U.S. Terrorism Risk Insurance Act of 2002 ("TRIA"), as amended, established the Terrorism Risk Insurance Program ("TRIP"), which became effective on November 26, 2002 and was a three-year federal program effective through 2005. On December 22, 2005, President George W. Bush signed a bill extending TRIA ("TRIAE") for two more years, continuing TRIP through 2007. On December 26, 2007, President George W. Bush signed the Terrorism Risk Insurance Program Reauthorization Act of 2007 ("TRIPRA") which further extended TRIP for seven years until December 31, 2014 and also eliminated the distinction between foreign and domestic acts of terrorism. On January 12, 2015, President Barack H. Obama signed TRIPRA 2015, which is effective retroactively to December 31, 2014 and extends authorization of the TRIP for six years through December 31, 2020. TRIPRA 2015 makes modifications to TRIP by, among other things, establishing a National Association of Registered Agents and Brokers and exempting certain swap participants from capital requirements established under the Dodd-Frank Act.

In response to the lack of availability in certain insurance and reinsurance markets resulting from, among other things, the September 11 event, the TRIP was created upon the enactment of the TRIA of 2002 to ensure the availability of commercial insurance coverage for certain terrorist acts in the U.S. This law established a federal program, that has now been extended to December 31, 2020, to help the commercial property and casualty insurance industry cover claims related to future terrorism-related losses and to require insurers to offer coverage for terrorist acts.

TRIA voided in force terrorism exclusions as of November 26, 2002 for certified terrorism on all TRIA specified property and casualty business. TRIA required covered insurers to make coverage available for certified acts of terrorism on all new and renewal policies issued after TRIA was enacted. TRIA along with further extensions to TRIP, as noted above, allows us to assess a premium charge for terrorism coverage and, if the policyholder declines the coverage or fails to pay the buy-back premium, certified acts of terrorism may then be excluded from the policy, subject, however, to state specific requirements. Terrorism coverage cannot be excluded from workers' compensation policies. Subject to a premium-based deductible and provided that we have otherwise complied with all the requirements as specified under TRIPRA, we are eligible for reimbursement by the Federal Government for up to 85% (which decreases to 80% in 2020) of our covered terrorism-related losses arising from a certified terrorist attack.

Such payment by the government will, in effect, provide reinsurance protection on a quota share basis. The maximum liability during a program year, including both the Federal Government's and insurers' shares, is capped on an aggregated basis at $100 billion. While regulations have been promulgated by the Department of the Treasury ("Treasury") requiring that Treasury advise participating insurers, such as the Company, in advance of reaching the $100 billion aggregate limit that such aggregate limit could be reached during the program year, there is a risk that the Company will not be given adequate notice of the potential exhaustion of that aggregate limit. Accordingly, the Company could overpay with regard to such losses, and it is unlikely Treasury would reimburse the Company for such losses; moreover, it is unclear whether the Company, in the event of an overpayment, would be able to recover the amount of any such overpayment.

In addition, there is a risk that the occurrence of an event that results in an industry loss that exceeds the $100 billion cap will result in the Company not being reimbursed and reduced coverage for policyholders with terrorism coverage. We believe that TRIP and the related legislation have been an effective mechanism to assist policyholders and industry participants with the extreme contingent losses that might be caused by acts of terrorism. Nevertheless, we cannot provide assurance that TRIPRA 2015 will be extended beyond 2020, and its expiration or a significant change in terms could have an adverse effect on us, our clients or the insurance industry.

The regulatory regimes under which we operate, and potential changes thereto, could have a material adverse effect on our business.

Our insurance and reinsurance subsidiaries operate in more than 20 countries around the world as well as in all 50 U.S. states. Our operations in each of these jurisdictions are subject to varying degrees of regulation and supervision. The laws and regulations of the jurisdictions in which our insurance and reinsurance subsidiaries are domiciled require, among other things, that these subsidiaries maintain minimum levels of statutory capital, surplus and liquidity, meet solvency standards, submit to periodic examinations of their financial condition and restrict payments of dividends, distributions and reductions of capital in certain circumstances. Statutes, regulations and policies that our insurance and reinsurance subsidiaries are subject to may also restrict the ability of these subsidiaries to write insurance and reinsurance policies, make certain investments and distribute funds.

In recent years, the U.S. insurance regulatory framework has come under increased federal scrutiny. In July 2010, Dodd-Frank was signed into law. Dodd-Frank requires many federal agencies to adopt new rules and regulations that will apply to the financial services industry and also calls for many studies regarding various industry practices. In particular, Dodd-Frank created a FIO within the Treasury that is focused on national coordination of the insurance sector, systemic risk mitigation and international regulatory cooperation. Although the FIO currently does not directly regulate the insurance industry, under Dodd-Frank it has the power to preempt state insurance regulations that are inconsistent with international agreements regarding insurance regulation, subject to certain exceptions. In December 2013 the FIO submitted a report to the U.S. Congress as required under Dodd-Frank on improving U.S. insurance regulation. The report states that state regulation is often duplicative or inconsistent, that the multiplicity of jurisdictions makes state regulators more prone to capture, and that differences in standards between the states provide opportunities for regulatory arbitrage. The report also notes arguments about states' constitutional limits in regulating multi-state insurers and asserts that insurers may engage in practices that can cause systemic risk, and thus systemically important insurers need to be supervised on a consolidated basis at the federal level. Whether these recommendations will be implemented, altered or delayed for an extended period is uncertain. While we have not yet been required to make material changes to our business or operations as a result of Dodd-Frank , due to the complexity and broad scope of Dodd-Frank and the time required for regulatory implementation, it is not certain what the scope of future rulemaking or interpretive guidance from the SEC, U.S. Commodity Futures Trading Commission or other regulatory agencies may be, and what impact this will have on our compliance costs, business, operations and profitability.

In addition, some U.S. state legislatures have considered or enacted laws that may alter or increase state regulation of insurance and reinsurance companies and holding companies. Moreover, the NAIC, which is the organization of insurance regulators from the 50 U.S. states, the District of Columbia and the four U.S. territories, as well as state insurance regulators, regularly reexamine existing laws and regulations. In one particular example, the NAIC's SMI has created roadmaps (and continual updates thereto) outlining activities, issues and projects underway focused on five specific areas: Capital Requirements, Governance and Risk Management, Group Supervision, Statutory Accounting and Financial Reporting, and Reinsurance. It is expected that the NAIC will ultimately provide guidelines on all of these areas that will in turn trigger activity among insurers to implement compliant processes and platforms. Given the extensive agenda the SMI covers, there remains uncertainty as to this initiative's costs and the impact it will have on us.

In addition to these proposals and initiatives in the United States, new capital adequacy and risk management regulations, called Solvency II, will be implemented throughout the EEA by January 1, 2016. The CBI has informed us that it will be our group regulator under Solvency II. See Item 1, "Business – Regulation". Regulations and legislation relating to capital adequacy and risk management are also in the process of being developed or implemented in other

jurisdictions. There remains significant uncertainty as to the impact that these various regulations and legislation will have on us; however, such impact could include constraints on our ability to move capital between subsidiaries or require that additional capital be provided to subsidiaries in certain jurisdictions, which may impact our profitability. Whether as a result of Solvency II or similar risk-based capital regimes, various (re)insurance companies are seeking approval of internal models by January 1, 2016 from their relevant regulators for determining their required regulatory capital. We have been engaging with our group supervisor on our group internal capital model and are seeking internal model approvals for certain of our operating subsidiaries. The Acquisition could delay the approval of our internal capital model and other internal models to beyond January 1, 2016. If these internal models are not approved, either due to the Acquisition or other considerations raised by the CBI or any other regulator as part of the model review process, there is a risk that we will be

38

required to hold more regulatory capital (e.g., on a standard formula basis) than our internal models might otherwise indicate, which could have a material adverse effect on our capital and surplus.
In addition, under Solvency II, E.U. cedants placing reinsurance with (re)insurers that are domiciled in either the E.U. (or in countries that are deemed equivalent to the Solvency II regime for these purposes) will receive full credit for such reinsurance after January 1, 2016. Our operating subsidiaries that are not domiciled in the E.U. (and that are not otherwise domiciled in Solvency II equivalent jurisdictions) that provide reinsurance to E.U. cedants may be required to post collateral to receive full credit for the reinsurance ceded. This could increase the cost of doing business and which could have a material adverse effect on our results of operations. Similarly, there is a risk that our operating subsidiaries purchasing reinsurance protection from (re)insurers not domiciled in the E.U. (and that are not domiciled in jurisdictions that are deemed SII equivalent) will not receive full credit for such reinsurance which could have a material impact on our business, financial condition and results of operations. See Item 1, "Business - Regulation - Solvency II Equivalence" for more information regarding the Solvency II equivalence process.
Our Bermuda-based operating subsidiaries are subject to the BMA's risk-based capital standards for (re)insurance companies, which impose required levels of statutory capital and surplus on our Bermuda-based operating standards. While our Bermuda-based operating subsidiaries currently have excess capital and surplus under these requirements, such requirements or similar regulations, in their current form or as may be amended in the future, may have a material adverse effect on our business, financial condition or results of operations.
In addition to insurance and financial industry regulations, our activities are also subject to relevant economic and trade sanctions, money laundering regulations, and anti-corruption laws including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act 2010, which may increase the costs of compliance, limit or restrict our ability to do business or engage in certain activities, or subject us to the possibility of civil or criminal actions or proceedings. Although we have in place systems and controls designed to comply with applicable laws and regulations, there can be no assurance that we, our employees, or our agents acting on our behalf are in full compliance with all applicable laws and regulations or their interpretation by the relevant authorities and, given the complex nature of the risks, it may not always be possible for us to ascertain compliance with such laws and regulations. Failure to comply with or to obtain appropriate authorizations and/or exemptions under such laws or regulations could subject us to investigations, criminal sanctions or civil remedies, including fines, injunctions, loss of an operating license, reputational consequences, and other sanctions, all of which could have a material adverse effect on our business.
We may not be able to comply fully with, or obtain desired exemptions from, revised statutes, regulations and policies that govern the conduct of our business. Failure to comply with, or to obtain desired authorizations and/or exemptions under, any applicable laws could result in restrictions on our ability to do business or undertake activities that are regulated in one or more of the jurisdictions in which we operate and could subject us to fines and other sanctions. In addition, changes in the laws or regulations to which we are, or may become subject, or in the interpretations thereof by enforcement or regulatory agencies, could have a material adverse effect on our business, financial condition and results of operations.
Potential government intervention in our industry and instability in the marketplace for insurance products could hinder our flexibility and negatively affect the business opportunities that may be available to us in the market.
Government intervention and the possibility of future government intervention have created uncertainty in the insurance and reinsurance markets. Government regulators are generally concerned with the protection of policyholders to the exclusion of other constituencies, including shareholders of insurers and reinsurers. While we cannot predict the exact nature, timing or scope of possible governmental initiatives, such proposals could adversely affect our business by, among other things:
providing insurance and reinsurance capacity in markets and to consumers that we target, e.g., the creation or expansion of state or federal catastrophe funds such as those in the state of Florida;
requiring our participation in industry pools and guarantee associations;
expanding the scope of coverage or altering the enforceability of deductibles under existing policies;
regulating the terms of insurance and reinsurance policies;
ordering the suspension of or otherwise altering the application of insurance laws or regulations; or

disproportionately benefiting the companies of one country over those of another.

The insurance industry is also affected by legislative, political, judicial and legal developments that may create new and expanded theories of liability, which may result in unexpected claims frequency and severity and delays or cancelations of products and services by insureds, insurers and reinsurers which could adversely affect our business.

For further information regarding government regulation and/or intervention in response to the financial and credit crises, see risk factor entitled “Governmental and regulatory actions may impact the marketplace generally or us in particular” above.

Consolidation in the insurance industry could adversely impact us.

Insurance industry participants may seek to consolidate through mergers and acquisitions. Continued consolidation within the insurance industry will further enhance the already competitive underwriting environment as we would likely experience more robust competition from larger, better capitalized competitors. These consolidated entities may use their enhanced market power and broader capital base to negotiate price reductions for our products and services, and reduce their use of reinsurance, and, as such, we may experience rate declines and possibly write less business.

The loss of one or more key executives or the inability to attract, motivate and retain qualified personnel could adversely affect our ability to conduct business.

Our success depends on our ability to attract new, highly skilled individuals and to motivate and retain our existing key executives and qualified personnel. The loss of the services of any of our key executives or the inability to attract, motivate and retain other highly skilled individuals in the future could adversely affect our ability to conduct our business. In addition, we do not necessarily maintain key man life insurance policies with respect to our senior employees.

A decrease in the fair values of our reporting units may result in future goodwill impairments.

When we acquire an entity, the excess of the purchase price over the net identifiable assets acquired is allocated to goodwill. The goodwill is then assigned to a level of reporting referred to as a "reporting unit" for purposes of impairment testing. We conduct impairment tests on our goodwill at least annually, or more frequently if impairment indicators exist. In performing a goodwill impairment test, we use various methods and make various assumptions to determine the fair value of our reporting units, including the determination of expected future cash flows and/or profitability of such reporting units, and we take into account market value multiples and/or cash flows of entities that we deem to be comparable in nature, scope or size to our reporting units. However, expected future cash flows and/or profitability may be materially and negatively impacted as a result of, among other things, a decrease in pricing or renewal activity and new business opportunities, a decrease in retention of our underwriting teams, lower-than-expected yields and/or cash flows from our investment portfolio or higher-than-expected claims activity and incurred losses and general economic factors that impact the reporting unit. In addition, previously determined market value multiples and/or cash flows may no longer be relevant as a result of these potential factors. As a result of these potential changes, the estimated fair value of one or more of our reporting units may decrease, causing the carrying value of the net assets assigned to the reporting unit - which includes the value of the assigned goodwill - to exceed the fair value of such net assets, thus creating a goodwill impairment. If we determine such an impairment exists, we adjust the carrying value of goodwill to its implied fair value. The impairment charge is recorded in our income statement in the period in which the impairment is determined. If we are required in the future to record additional goodwill impairments, our financial condition and results of operations would be negatively affected. In connection with fair value measurements and the accounting for goodwill, the use of generally accepted accounting principles requires management to make certain estimates and assumptions. Significant judgment is required in making these estimates and assumptions, and actual results may ultimately be materially different from such estimates and assumptions.

We are exposed to risks in connection with our management of third party capital.

Our asset manager affiliate (New Ocean Capital Management Limited ("New Ocean")) or other affiliated investment vehicles in which we may be involved may owe certain legal duties and obligations to third party investors (including reporting obligations), and will be subject to complex laws and regulations relating to the management of third party capital. Compliance with some of these laws and regulations, all of which are subject to change, requires significant management time and attention. Although New Ocean will seek to continually monitor its policies and procedures to attempt to ensure compliance, faulty or mistaken judgments or representations, errors or the failure of its personnel to adhere to its policies and procedures could result in its failure to comply with applicable laws or regulations which could result in significant liabilities, penalties or other losses and harm our business and results of operations.

The investment vehicles that are managed by New Ocean will have commercial and contractual arrangements and certain conflicts of interest may arise from those arrangements. For example, one or more of our operating subsidiaries may provide underwriting, modeling and claims management services to the asset manager or certain reinsurance risk may be retroceded in respect of the investment vehicles managed by the asset manager. In addition, such entities may underwrite business or invest in asset classes similar to those underwritten or targeted by us, which could result in conflicts in allocating opportunities between us and such other entities.

In addition to the foregoing, our investments in New Ocean and its affiliated investment funds may be adversely affected by unexpected redemptions of third party capital providers' interests in such funds. Moreover, New Ocean and its affiliated

investment funds may not be able to attract and raise additional third party capital for existing funds or for potential new investment vehicles, and therefore we may forego existing and/or potential attractive fee income and other income generating opportunities, which could materially impact our investments in those entities.

Provisions in our Articles of Association may reduce the voting rights of our ordinary shares.

Our Articles of Association generally provide that shareholders have one vote for each ordinary share held by them and are entitled to vote, on a non-cumulative basis, at all meetings of shareholders. However, the voting power that may be exercised by certain persons or groups may not equal or exceed 10% of the voting power conferred by our shares.

In particular, our Articles of Association provide that if, and for so long as, the votes conferred by the Controlled Shares (as defined below) of any person constitute 10% or more of the votes conferred by all our issued shares, the voting rights with respect to the Controlled Shares of such person shall be limited, in the aggregate, to a voting power equal to approximately (but slightly less than) 10%, pursuant to a formula set forth in the our Articles of Association.

"Controlled Shares" of a person (as defined in our Articles of Association) include (1) all of our shares owned directly, indirectly or constructively by that person (within the meaning of Section 958 of the Internal Revenue Code of 1986, as amended (the "IRS Code") and (2) all of our shares owned directly, indirectly or constructively by that person or any "group" of which that person is a part, within the meaning of Section 13(d)(3) of the Exchange Act.

Provisions in our Articles of Association may restrict the ownership and transfer of our ordinary shares.

Our Articles of Association provide that the XL-Ireland Board shall decline to register a transfer of shares if it appears to the XL-Ireland Board, whether before or after such transfer, that the effect of such transfer would be to increase the number of Controlled Shares of any person to 10% or more of any class of our voting shares, of our total issued shares, or of the total voting power of our total issued shares.

Certain provisions in our charter documents could, among other things, impede an attempt to replace our directors or impose restrictions with respect to a change of control, which could diminish the value of our ordinary shares.

Our Articles of Association contain provisions that may make it more difficult for shareholders to replace directors and could delay or prevent a change of control that a shareholder may consider favorable. These provisions currently include limitations on the ability of shareholders to remove directors, limitations on voting rights, certain transfer restrictions on our ordinary shares and a partially classified board of directors (which will be fully declassified following our 2016 Annual General Meeting).

As an Irish company, we are subject to the Irish Takeover Rules, under which the XL-Ireland Board is not permitted to take any action that might "frustrate" an offer for our shares once the XL-Ireland Board has received an offer or has reason to believe an offer is or may be imminent without the approval of more than 50% of shareholders entitled to vote at a general meeting of shareholders and/or the consent of the Irish Takeover Panel. This could limit the ability of the Board of Directors to take defensive actions even if the XL-Ireland Board believes that such defensive actions would be in the best interests of the Company and its shareholders.

The Irish Takeover Rules also could discourage an investor from acquiring 30% or more of our outstanding ordinary shares unless such investor was prepared to make a bid to acquire all outstanding ordinary shares. Further, it could be more difficult for us to obtain shareholder approval for a merger or negotiated transaction because of heightened shareholder approval requirements for certain types of transactions under Irish law.

In addition, insurance regulations in certain jurisdictions may also delay or prevent a change of control or limit the ability of a shareholder to acquire in excess of specified amounts of our ordinary shares.

Irish shareholder voting requirements may limit flexibility with respect to certain aspects of capital management.

Irish law allows shareholders to authorize a board of directors to issue shares subsequent to receipt of authorization without further shareholder approval, but this authorization must be renewed after five years. Additionally, subject to specified exceptions, Irish law grants statutory preemption rights to existing ordinary shareholders to subscribe for new issuances of shares for cash, but allows such shareholders to authorize the waiver of such statutory preemption rights for five years. Our Articles of Association currently provide authority to the Board of Directors to issue shares without further shareholder approval and to waive ordinary shareholders' statutory preemption rights. However, the share issuance authorization may expire upon the effectiveness of new Irish company legislation and the preemption opt-out provision will expire in 2015, in each case, unless renewed by XL-Ireland's shareholders, and these

authorizations and waivers may not always be renewed, which could limit our ability to issue equity in the future.

It may be difficult to enforce judgments against XL-Ireland, XL-Cayman or their directors and executive officers.
XL-Ireland is incorporated pursuant to the laws of Ireland. In addition, from time to time, certain of our directors and officers reside outside the United States and a substantial portion of our assets and the assets of any such directors and officers are located outside the United States. As such, it may be difficult or impossible to effect service of process within the United States upon those persons or to recover on judgments of U.S. courts against us or such directors and officers, including judgments predicated upon civil liability provisions of U.S. federal securities laws. There is no treaty between Ireland and the United States providing for the reciprocal enforcement of foreign judgments. The following requirements must be met before the foreign judgment will be deemed to be enforceable in Ireland:

the judgment must be for a definite sum;

the judgment must be final and conclusive; and

the judgment must be provided by a court of competent jurisdiction.

An Irish court will also exercise its right to refuse judgment if the foreign judgment was obtained by fraud, if the judgment violated Irish public policy, if the judgment is in breach of natural justice or if it is irreconcilable with an earlier foreign judgment.

In addition, XL-Cayman is incorporated pursuant to the laws of the Cayman Islands and is an Irish tax resident. Requirements for enforceability of foreign judgments in Ireland are summarized above. We have been advised that there is doubt as to whether the courts of the Cayman Islands would enforce:

judgments of U.S. courts based upon the civil liability provisions of U.S. federal securities laws obtained in actions against XL-Cayman or its directors and officers who reside outside the United States; or

original actions brought in the Cayman Islands against these persons or XL-Cayman predicated solely upon U.S. federal securities laws.

There is also no treaty in effect between the United States and the Cayman Islands providing for such enforcement and there are grounds upon which Cayman Islands courts may not enforce judgments of U.S. courts. Some remedies available under the laws of U.S. jurisdictions, including some remedies available under U.S. federal securities laws, may not be allowed in Cayman Islands courts as contrary to public policy.

Current, pending or future lawsuits against us, including putative class action lawsuits, could have a material adverse effect on our results of operations in a particular fiscal quarter or year.

We are subject to lawsuits and arbitrations in the regular course of our business. An adverse resolution of one or more lawsuits or arbitrations could have a material adverse effect on our results of operations in a particular fiscal quarter or year.

Changes in current accounting practices and future pronouncements may materially impact our reported financial results.

Developments in accounting practices may require us to incur considerable additional expenses to comply with such developments, particularly if we are required to prepare information relating to prior periods for comparative purposes or to apply the new requirements retroactively. The impact of changes in current accounting practices and future pronouncements cannot be predicted but may affect the calculation of net income, net equity and other relevant financial statement line items and the timing of when impairments and other charges are tested or taken.

We and our non-U.S. insurance subsidiaries may become subject to U.S. tax, which may have a material adverse effect on our results of operations and your investment.

We take the position that neither we nor any of our non-U.S. insurance subsidiaries are engaged in a U.S. trade or business through a U.S. permanent establishment. Accordingly, we take the position that neither we or our non-U.S. insurance subsidiaries should be subject to U.S. tax (other than U.S. excise tax on insurance and reinsurance premium income attributable to insuring or reinsuring U.S. risks and U.S. withholding tax on some types of U.S. source investment income). However, because there is considerable uncertainty as to the activities that constitute being engaged in a trade or business within the United States, we cannot be certain that the U.S. Internal Revenue Service (the "IRS") will not contend successfully that we or any of our non-U.S. insurance subsidiaries are engaged in a trade or business in the United States. If we or any of our non-U.S. insurance subsidiaries were considered to be engaged in a trade or business in the United States, any such entity could be subject to U.S. corporate income and additional branch profits taxes on the portion of its earnings effectively connected to such U.S. business, in which case our financial

condition and results of operations could be materially adversely affected.

Changes in U.S. tax law might adversely affect an investment in our shares.
Legislation may be introduced in the U.S. Congress attempting to eliminate certain perceived tax advantages of companies (including insurance companies) that have legal domiciles outside the U.S. but have certain U.S. affiliates. For example, one legislative proposal could impose additional limits on the deductibility of interest by foreign-owned U.S. corporations. Another legislative proposal could modify the standards that indicate when a non-U.S. corporation might be treated as a U.S. corporation for U.S. federal income tax purposes if it were considered to be primarily managed and controlled in the U.S. In addition, legislation has been proposed in the U.S. that would severely restrict the ability of a company to utilize affiliate reinsurance to manage its U.S. risks and its capital position. Various proposals have been made that would effectively disallow (in some cases permanently and in others temporarily) part or all of the deduction for premiums ceded to affiliates. If any of these proposals, or a similar proposal using the same underlying principles, is enacted, it could have an adverse impact on us or our shareholders. It is possible that other legislative proposals could emerge in the future that could also have an adverse impact on us or our shareholders.
Additionally, the U.S. federal income tax laws and interpretations, including those regarding whether a company is engaged in a trade or business (or has a permanent establishment) within the United States or is a Passive Foreign Investment Company ("PFIC"), or whether U.S. holders would be required to include in their gross income "subpart F income" or the related person insurance income, which we refer to as "RPII" of a Controlled Foreign Corporation ("CFC"), are subject to change, possibly on a retroactive basis. There are currently no regulations regarding the application of the PFIC rules to insurance companies and the regulations regarding RPII are still in proposed form. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming. We cannot be certain if, when or in what form such regulations or pronouncements may be provided and whether such guidance will have a retroactive effect.
We cannot assure you that future legislative action will not increase the amount of U.S. tax payable by us. If an increase occurs, our financial condition and results of operations could be materially adversely affected.
There is U.S. income tax risk associated with reinsurance between U.S. insurance companies and their Bermuda affiliates.
As discussed above, the U.S. Congress has periodically considered legislation intended to eliminate certain perceived tax advantages of non-U.S. insurance companies and U.S. insurance companies with non-U.S. affiliates, including perceived tax benefits resulting principally from reinsurance between or among U.S. insurance companies and their non-U.S. affiliates. In this regard, section 845 of the IRS Code was amended in 2004 to permit the IRS to reallocate, recharacterize or adjust items of income, deduction or certain other items related to a reinsurance agreement between related parties to reflect the proper "amount, source or character" for each item (in contrast to prior law, which only covered "source and character"). If the IRS were to successfully challenge our reinsurance arrangements under section 845, our financial condition and results of operations could be materially adversely affected and the price of our ordinary shares could be adversely affected.
The Organization for Economic Co-operation and Development has launched an Action Plan on Base Erosion and Profit Shifting that if implemented might change the manner in which we are taxed.
In July 2013, The Organization for Economic Co-operation and Development ("the OECD") launched an Action Plan on Base Erosion and Profit Shifting ("BEPS Action Plan"). The BEPS Action Plan identifies 15 specific actions to address tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity, resulting in little or no overall corporate tax being paid. In addition, the BEPS Action Plan sets deadlines to implement the actions and identifies the resources needed and the methodology to implement these actions. The OECD reports and recommendations for the 15 actions outlined in the plan are expected to be finalized and delivered by December 31, 2015. For the first time in tax matters, non-OECD/G20 countries are involved on an equal footing in delivering these actions. The implementation of these actions could have a material impact on how we and other multinational organizations are taxed.
If an investor acquires 10% or more of our ordinary shares, it may be subject to taxation under the U.S. "controlled foreign corporation" ("CFC") rules.
Under certain circumstances, a U.S. person who owns 10% or more of the voting power of a foreign corporation that is a CFC (a foreign corporation in which 10% U.S. shareholders own more than 50% of the voting power of the foreign corporation or more than 25% of a foreign insurance company) for an uninterrupted period of 30 days or more

during a taxable year must include in gross income for U.S. federal income tax purposes such “10% U.S. Shareholder’s” pro rata share of the CFC’s “subpart F income,” even if the subpart F income is not distributed to such 10% U.S. Shareholder, if such 10% U.S. Shareholder owns (directly or indirectly through foreign entities) any shares of the foreign corporation on the last day of the corporation’s taxable year. “Subpart F income” of a foreign insurance corporation typically includes foreign personal holding company income (such as interest, dividends and other types of passive income), as well as insurance and reinsurance income

(including underwriting and investment income) attributable to the insurance of risks situated outside the CFC's country of incorporation.

While provisions in our organizational documents serve to limit voting power on our ordinary shares, it is possible, that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge, in which case an investor's investment could be materially adversely affected, if the investor is considered to own 10% or more of our shares.

U.S. Persons who hold shares will be subject to adverse tax consequences if we are considered to be a PFIC for U.S. federal income tax purposes.

If we are considered a PFIC for U.S. federal income tax purposes, a U.S. person who owns any of our shares will be subject to adverse tax consequences, including a greater tax liability than might otherwise apply and tax on amounts in advance of when tax would otherwise be imposed, in which case an investor's investment could be materially adversely affected. In addition, if we were considered a PFIC, upon the death of any U.S. individual owning shares, such individual's heirs or estate would not be entitled to a "step-up" in the basis of the shares that might otherwise be available under U.S. federal income tax laws. We believe that we are not, have not been, and currently do not expect to become, a PFIC for U.S. federal income tax purposes. However, we may be deemed a PFIC by the IRS in the future. If we were considered a PFIC, it could have material adverse tax consequences for an investor that is subject to U.S. federal income taxation. There are currently no regulations regarding the application of the PFIC provisions to an insurance company. New regulations or pronouncements interpreting or clarifying these rules may be forthcoming. We cannot predict what impact, if any, such guidance would have on an investor that is subject to U.S. federal income taxation.

There are U.S. income tax risks associated with the related person insurance income of our non-U.S. insurance subsidiaries.

If (i) the related person insurance income, which we refer to as "RPII," of any one of our non-U.S. insurance subsidiaries were to equal or exceed 20% of that subsidiary's gross insurance income in any taxable year and (ii) U.S. persons were treated as owning 25% or more of the subsidiary's stock (by vote or value), a U.S. person who owns any ordinary shares, directly or indirectly, on the last day of such taxable year on which the 25% threshold is met would be required to include in its income for U.S. federal income tax purposes that person's ratable share of that subsidiary's RPII for the taxable year, determined as if that RPII were distributed proportionately only to U.S. holders at that date, regardless of whether that income is distributed. The amount of RPII earned by a subsidiary (generally premium and related investment income from the direct or indirect insurance or reinsurance of any direct or indirect U.S. holder of shares of that subsidiary or any person related to that holder) would depend on a number of factors, including the identity of persons directly or indirectly insured or reinsured by that subsidiary. Although we do not believe that the 20% threshold will be met in respect of any of our non-U.S. insurance subsidiaries, some of the factors that may affect the result in any period may be beyond our control. Consequently, we cannot provide absolute assurance that we will not exceed the RPII threshold in any taxable year.

The RPII rules provide that if a holder who is a U.S. person disposes of shares in a non-U.S. insurance corporation that had RPII (even if the 20% gross income threshold was not met) and met the 25% ownership threshold at any time during the five-year period ending on the date of disposition, and the holder owned any stock at such time, any gain from the disposition will generally be treated as a dividend to the extent of the holder's share (taking into account certain rules for determining a U.S. holder's share of RPII) of the corporation's undistributed earnings and profits that were accumulated during the period that the holder owned the shares (possibly whether or not those earnings and profits are attributable to RPII). In addition, such a shareholder will be required to comply with specified reporting requirements, regardless of the amount of shares owned. We believe that these rules should not apply to dispositions of our ordinary shares because XL-Ireland is not itself directly engaged in the insurance business. We cannot provide absolute assurance, however, that the IRS will not successfully assert that these rules apply to dispositions of our ordinary shares.

We and our Bermuda (re)insurance subsidiaries may become subject to taxes in Bermuda in the future, which may have a material adverse effect on our financial condition, results of operations and your investment.

Our Bermuda (re)insurance subsidiaries have received from the Ministry of Finance in Bermuda exemptions from any Bermuda taxes that might be imposed on profits, income or any capital asset, gain or appreciation until March 31, 2035. The exemptions are subject to the proviso that they are not construed so as to prevent the application of any tax or duty to persons who are ordinarily residents in Bermuda (the Company and our Bermuda (re)insurance subsidiaries are not so currently designated) and to prevent the application of any tax payable in accordance with the provisions of The Land Tax Act 1967 or otherwise payable in relation to the land leased to us and our Bermuda (re)insurance subsidiaries. XL-Ireland and other Bermuda-based subsidiaries not incorporated in Bermuda have also received similar exemptions as permit companies under the Companies Act of 1981 of Bermuda. These exemptions have also been extended to 2035. Our Bermuda (re)insurance subsidiaries are required to pay certain annual Bermuda government fees and certain business fees as a (re)insurer under The

Insurance Act 1978 of Bermuda. Currently there is no Bermuda withholding tax on dividends paid by our Bermuda (re)-insurance subsidiaries to us. The tax rules as presently applied may change in the future, however.

XL-Cayman may become subject to taxes in the Cayman Islands after June 2, 2018, which may have a material adverse effect on our results of operations and your investment.

For tax purposes, XL-Cayman is resident in Ireland by virtue of central management and control. In the event the Cayman Islands introduces a corporate income tax based on place of incorporation, XL-Cayman would be a dual resident company and potentially subject to tax in both Ireland and the Cayman Islands. As there is no double tax treaty between the Cayman Islands and Ireland, XL-Cayman could become subject to taxation in both Ireland and the Cayman Islands. Under current Cayman Islands law, we are not obligated to pay any taxes in the Cayman Islands on our income or gains. We have received an undertaking from the Governor-in-Council of the Cayman Islands pursuant to the provisions of the Tax Concessions Law, as amended, that until June 2, 2018, (i) no subsequently enacted law imposing any tax on profits, income, gains or appreciation shall apply to XL-Cayman and (ii) no such tax and no tax in the nature of an estate duty or an inheritance tax shall be payable on any of XL-Cayman's ordinary shares, debentures or other obligations. Given the limited duration of the undertaking from the Governor-in-Council of the Cayman Islands, we cannot be certain that we will not be subject to any Cayman Islands tax after June 2, 2018. Such taxation could have a material adverse effect on our financial condition and results of operations and on your investment.

Our tax position could be adversely impacted by changes in tax laws, tax treaties or tax regulations or the interpretation or enforcement thereof.

Our tax position could be adversely impacted by changes in tax laws, tax treaties or tax regulations or the interpretation or enforcement thereof by the tax authorities in Ireland, the United States and other jurisdictions. Such tax law changes could cause a material and adverse change in our worldwide effective tax rate and we may have to take further action, at potentially significant expense, to seek to mitigate the effect of such changes. Any future amendments to the current income tax treaties between Ireland and other jurisdictions, including the United States, could subject us to increased taxation and/or potentially significant expense.

Dividends you receive may be subject to Irish dividend withholding tax and Irish income tax.

Dividend withholding tax (currently at a rate of 20%) may arise in respect of dividends paid on the Company’s ordinary shares. However, a number of exemptions from dividend withholding tax exist such that ordinary shareholders resident in the United States and ordinary shareholders resident in other specified countries (listed in Annex F attached to the Redomestication Proxy Statement filed with the SEC on March 10, 2010) may be entitled to exemptions from dividend withholding tax if they complete and file certain dividend withholding tax forms. Ordinary shareholders resident in the U.S. that hold their ordinary shares through the Depository Trust Company (“DTC”) will not be subject to dividend withholding tax provided the addresses of the beneficial owners of such ordinary shares in the records of the brokers holding such ordinary shares are in the United States (so that such brokers can further transmit the relevant information to a qualifying intermediary appointed by the Company). Similarly, ordinary shareholders resident in the U.S. that hold their ordinary shares directly instead of beneficially through DTC are not subject to dividend withholding tax if such ordinary shareholders held ordinary shares in the Company on January 12, 2010 and they provided a valid Form W-9 showing a U.S. address to the Company’s transfer agent. In addition, XL shareholders resident in the U.S. that acquire their XL Shares after January 12, 2010 and that hold their XL Shares directly instead of beneficially through DTC are not subject to Irish dividend withholding tax if such XL shareholders satisfy the conditions of any of one of several exemptions from Irish dividend withholding tax (exemptions include where such an XL shareholder is an individual neither resident nor ordinarily resident in Ireland, or such an XL shareholder is a company not under the control of a person or persons that is or are resident in Ireland), including the requirements to furnish completed Irish Revenue Commissioners' prescribed dividend withholding tax forms and that such forms remain valid. However, other ordinary shareholders may be subject to dividend withholding tax, which could adversely affect the price of our ordinary shares.

In addition, ordinary shareholders entitled to an exemption from Irish dividend withholding tax on dividends received from the Company should not be subject to Irish income tax in respect of those dividends, unless they have some connection with Ireland other than their ordinary shareholdings in the Company. Ordinary shareholders who receive

dividends subject to Irish dividend withholding tax will generally have no further liability to Irish income tax on those dividends unless they have some connection with Ireland other than their ordinary shareholding in the Company.

A future transfer of your ordinary shares, other than one effected by means of the transfer of book entry interests in DTC, may be subject to Irish stamp duty.

Transfers of our ordinary shares effected by means of the transfer of book entry interests in DTC will not be subject to Irish stamp duty. The majority of our ordinary shares will be traded through DTC, either directly or through brokers who hold such ordinary shares on behalf of customers through DTC. However, if you hold your ordinary shares directly rather than

beneficially through DTC (or through a broker that holds your ordinary shares through DTC), any transfer of your ordinary shares could be subject to Irish stamp duty (currently at the rate of 1% of the higher of the price paid or the market value of the ordinary shares acquired). Payment of Irish stamp duty is generally a legal obligation of the transferee. The potential for stamp duty could adversely affect the price of our ordinary shares.

The consummation of the Acquisition of Catlin is subject to a number of conditions.

The Acquisition is subject to the satisfaction or waiver of a number of conditions, on or before October 9, 2015 or such later date as the Company and Catlin may (with the consent of the Bermuda Supreme Court, if required) agree. These (and any other) conditions may not be satisfied (or waived, if applicable). Failure to satisfy any of these conditions may result in the Acquisition not being completed, which would mean that costs relating to the negotiation, preparation and implementation of the Acquisition will have been incurred by the Company with none of the potential benefits of the Acquisition having been achieved. It would also mean that management's time spent in connection with the Acquisition, which could have otherwise been spent in connection with other aspects of the Company's business, will not have been spent productively.

Costs related to the Acquisition and synergies that could result from the Acquisition may differ from those anticipated.

While the Company believes that the costs related to the Acquisition and synergies expected to arise from the Acquisition have been reasonably estimated, unanticipated events or liabilities may arise which could result in a potential delay or potential reduction in the benefits anticipated to be derived from the Acquisition, or in costs significantly in excess of those estimated.

The Company following the Acquisition (the "Enlarged XL Group") may also face challenges with the following: redeploying resources in different areas of operations to improve efficiency; minimizing the diversion of management attention from ongoing business concerns; and addressing possible differences between the Company's business culture, processes, controls, procedures and systems and those of Catlin. Additionally, the Acquisition might affect the relationship that the Company and/or Catlin have with customers, brokers and other business partners, and affect the performance and/or potential growth opportunities.

Under any of these circumstances, the business growth opportunities, overhead functions consolidation benefits and other synergies anticipated by the Company and Catlin to result from the Acquisition may not be achieved as expected, or at all, or may be delayed materially. To the extent that the Enlarged XL Group incurs higher integration costs or achieves lower synergy benefits than expected, its results of operations, financial condition and/or prospects, and the price of the Company's shares, may be adversely affected.

The Enlarged XL Group's future prospects will, in part, be dependent on effective integration of the Company and Catlin, including with respect to key employees and IT and operational systems.

The Enlarged XL Group's future prospects will, in part, be dependent upon the Enlarged XL Group's ability to integrate Catlin into the Company successfully and any other businesses that the Company may acquire in the future without material disruption to the existing business, including as a result of the integration of information technology ("IT") and operational systems. The performance of the Enlarged XL Group in the future will, among other things, also depend on the successful integration and motivation of key employees from both the Company and Catlin. It is possible that failure to retain certain individuals during the integration period will affect the ability to integrate Catlin into the Company successfully and could have a material adverse effect on the Enlarged XL Group's business, financial condition and results of operations or losses on assets.

The Acquisition may expose the Company to significant unanticipated liabilities that could adversely affect the Company's business, financial condition and results of operations.

The Company's purchase of Catlin may expose it to significant unanticipated liabilities relating to the operation of the Enlarged XL Group following the Acquisition. These liabilities could include employment, retirement or severance-related obligations under applicable law or other benefits arrangements, legal claims, warranty or similar liabilities to customers, and claims by or amounts owed to vendors. The Company may also incur liabilities or claims associated with its acquisition of Catlin's technology and intellectual property including claims of infringement. Particularly in international jurisdictions, the Company's acquisition of Catlin, or the Company's decision to independently enter new international markets where Catlin previously conducted business, could also expose the Company to tax liabilities and other amounts owed by Catlin. The incurrence of such unforeseen or unanticipated

liabilities, should they be significant, could have a material adverse effect on the Company's business, financial condition and results of operations.

Depending on the legal method for implementing the Acquisition, the Company may experience a delay in acquiring or may not be able to acquire the entire issued share capital of Catlin, which would mean that there would be minority shareholders in Catlin.
If the Company elects to implement the Acquisition by way of a takeover offer, rather than the Scheme, it will be able to determine the level, at a percentage of Catlin Shares carrying in aggregate between 75% and 90% of voting rights normally exercisable at a general meeting of Catlin, at which the acceptance condition for the offer will be set. If the Company sets the acceptance level at (or reduces the level of the acceptance condition during the takeover process to) Catlin Shares carrying less than 90% of voting rights normally exercisable at a general meeting of Catlin subject to the offer, it is possible that the acceptance condition will be satisfied (so that the Company cannot invoke the condition related thereto and withdraw its offer), but that an insufficient number of Catlin shareholders will accept the offer to allow the Company to compulsorily acquire the shares of those Catlin shareholders who have not accepted the offer. In such circumstances, minority shareholders would retain a stake in Catlin and would benefit from certain legal protections afforded to them under Bermuda law unless and until the Company was able to acquire the remaining outstanding Catlin Shares. The Company may be unable to realize all of the benefits that it might otherwise obtain from a successful completion of the Acquisition if there are minority shareholders in Catlin after completion of the Acquisition.
Even if a material adverse change to Catlin's business were to occur, it is highly unlikely that the Company would be able to invoke the conditions to the Acquisition and terminate the Acquisition, which could reduce the value of the Company’s shares.
The Acquisition is subject to certain conditions, including the condition that there have not been material adverse changes in the business, assets, liabilities, financial or trading position, profits or operational performance or prospects of any member of Catlin’s consolidated group. The Company may invoke this “material adverse change” condition to the Acquisition to cause it not to proceed only if a committee of an equal number of representatives of the Company and Catlin, as designated under the implementation agreement governing the Acquisition (the “Code Committee”), or an independent expert on the U.K. City Code on Mergers and Acquisitions designated by the Company and Catlin pursuant to the Implementation Agreement (the “Code Expert”) (as the case may be) is satisfied that the circumstances giving rise to that condition not being satisfied are of material significance to the Company in the context of the Acquisition. In making this determination, the Code Committee or the Code Expert (as the case may be) will require there to be an adverse change of very considerable significance striking at the heart of the purpose of the transaction. In practice, it is highly unlikely that the Company would be able to invoke the material adverse change condition. As a result, the conditions may provide the Company less protection than the customary conditions in an offer for a U.S. domestic company. If a material adverse change affecting Catlin were to occur and the Code Committee or the Code Expert (as the case may be) did not allow the Company to invoke a condition that would cause the Acquisition not to proceed, the market price of the Company’ shares could decline or the Company’s business, financial condition and results of operations could be materially adversely affected.
The value of the XL-Ireland ordinary shares to be issued to Catlin’s shareholders in the Acquisition will vary as a result of the fixed exchange ratio and possible fluctuations in the price of Company shares.
Upon consummation of the Acquisition, each Catlin Share (other than Catlin Shares already legally or beneficially held by the Company or any of its subsidiary undertakings, any treasury shares and any Catlin Shares legally or beneficially held by any of Catlin’s subsidiary undertakings) will be exchanged for 388 pence in cash and 0.130 new XL-Ireland ordinary shares. Because the exchange ratio is fixed at 0.130 new XL-Ireland ordinary shares for each Catlin Share, the market value of the new Company shares issued in exchange for Catlin Shares will depend upon the market price of a XL-Ireland ordinary share at the date the Acquisition is consummated. If the price of XL-Ireland ordinary shares declines, Catlin shareholders could receive less value for their shares upon the consummation of the Acquisition than the value calculated pursuant to the exchange ratio on the date the Acquisition was announced or as of the date of publication of the Acquisition Prospectus. Share price changes may result from a variety of factors that are beyond the companies’ control, including general market conditions, changes in business prospects, catastrophic events, both natural and man-made, and regulatory considerations.

The increase in the number of outstanding XL-Ireland ordinary shares resulting from the issuance of new XL-Ireland ordinary shares to Catlin shareholders in connection with the Acquisition may lead to sales of such shares or the perception that such sales may occur, either of which may adversely affect the market for, and the market price of, XL-Ireland shares.

Catlin shareholders may receive a form of consideration different from what they elect under the Mix and Match Facility.

Although each Catlin shareholder (other than certain Catlin overseas shareholders) may elect to receive, in respect of some or all of their holdings of Catlin Shares and subject to offsetting elections, (i) all cash, or (ii) all new XL-Ireland ordinary shares, instead of receiving 388 pence and 0.130 new XL-Ireland ordinary shares for each Catlin Share (the "Mix and Match

Facility”), the total number of new XL-Ireland ordinary shares to be issued and the maximum aggregate amount of cash to be paid under the Acquisition will not be varied as a result of elections under the Mix and Match Facility. Accordingly, elections made by Catlin shareholders under the Mix and Match Facility will be satisfied only to the extent that other Catlin shareholders make off-setting elections. To the extent that elections cannot be satisfied in full, they will be scaled down on a pro rata basis. As a result, Catlin shareholders who make an election under the Mix and Match Facility will not know the exact number of new Company shares or the amount of cash they will receive until settlement of the consideration due to them in respect of the Acquisition. This could result in, among other things, tax consequences that differ from those that would have resulted if such Catlin shareholder had exclusively received the form of consideration that the shareholder elected (including the potential recognition of a gain for income tax purposes if the shareholder receives cash).

The proration and adjustment procedures applicable to the Mix and Match Facility do not include any mechanism to ensure that the value of the consideration received for each Catlin Share is equivalent, and the value of the consideration received by a Catlin shareholder may be different depending on such shareholder’s election. In the event that a Catlin shareholder does not make an election under the Mix and Match Facility it will receive 388 pence in cash and 0.130 new XL-Ireland ordinary shares for each Catlin Share.

Catlin’s counterparties may acquire certain rights in connection with the Acquisition which could negatively affect the Company following the Acquisition.

Catlin is party to numerous contracts, treaties, agreements, licenses, permits, authorizations and other arrangements that contain provisions giving counterparties certain rights (including, in some cases, termination or acceleration rights) in the event of a “change in control” of Catlin or its subsidiaries. The definition of “change in control” varies from contract to contract, ranging from a narrow to a broad definition, and, in some cases, the “change in control” provisions may be implicated by the Acquisition. Such agreements include Catlin's letter of credit and revolving credit facilities (a termination of which may require cash collateralization of the outstanding letters of credit, prepayment of outstanding loans (including all accrued interest and fees thereon) and an inability to request new loans or letters of credit).

Specifically with regards to Catlin’s reinsurance arrangements, many in-force reinsurance contracts contain such “change in control” provisions. In addition, many of these reinsurance contracts are annually renewable and whether or not they may be terminated in a change in control, reinsurance cedants may choose not to renew these contracts with the Enlarged XL Group. Termination and failure to renew reinsurance agreements by contractual counterparties could result in a material adverse effect on the Company's business, financial condition and operating results.

Additionally, reinsurance cedants may be permitted to cancel contracts on a cut-off or run-off basis, and Catlin may be required to provide collateral to secure premium and reserve balances or may be required to cancel and commute a contract, subject to an agreement between the parties that may be settled in arbitration. If a contract is canceled on a cut-off basis, Catlin may be required to return unearned premiums, net of commissions. In addition, contracts may provide cedants with multiple options, such as collateralization or commutation, that would be triggered by a change in control. Collateral requirements may take the form of trust agreements or be funded by securities held or letters of credit. Upon commutation, the amount to be paid to settle the liability for gross loss reserves typically would be considered a discount to the financial statement loss reserve value, reflecting the time value of money resident in the ultimate settlement of such loss reserves. In certain instances, contracts contain dual triggers, such as a change in control and a ratings downgrade, both of which must be satisfied for the contractual right to be exercisable.

Whether a cedant would have cancellation rights in connection with the Acquisition depends upon the language of its agreement with Catlin. Whether a cedant exercises any cancellation rights it has would depend on, among other factors, such ceding company’s views with respect to the financial strength and business reputation of the Enlarged XL Group, the extent to which such cedant currently has reinsurance coverage with the Company’s affiliates, the prevailing market conditions, the pricing and availability of replacement reinsurance coverage and the Company’s ratings following the Acquisition. Neither the Company nor Catlin can presently predict the effects, if any, if the Acquisition is deemed to constitute a change in control under certain of Catlin's contracts and other arrangements, including the extent to which cancellation rights would be exercised, if at all, or the effect on the Company’s financial condition, results of operations, or cash flows following the Acquisition, but such effect could be material.

Each of the Company and Catlin will be exposed to underwriting and other business risks during the period that each party's business continues to be operated independently from the other.
Until the completion of the Acquisition, each of the Company and Catlin will operate independently from the other in accordance with such party's distinct underwriting guidelines, investment policies, referral processes, authority levels and risk management policies and practices. As a result, during this period, Catlin may assume risks that the Company would not have assumed for itself, accept premiums that, in the Company's judgment, do not adequately compensate it for the risks assumed,

make investment decisions that would not adhere to the Company's investment policies or otherwise make business decisions or take on exposure that, while consistent with Catlin's general business approach and practices, are not the same as those of the Company. Significant delays in completing the Acquisition will materially increase the risk that Catlin will operate its business in a manner that differs from how the business would have been conducted by the Company.

The Enlarged XL Group faces risks related to operating at Lloyd's.

Catlin is currently the largest underwriting syndicate in Lloyd's and, accordingly, it is expected that the Enlarged XL Group will be the largest underwriting syndicate in Lloyd's on completion of the Acquisition. As a result, the Enlarged XL Group will face increased exposure to the risks facing syndicates operating at Lloyd's (as compared with the XL Group's current exposure to such risks) which include, but are not limited to, the following factors which, alone or in combination, could have an adverse effect on the Enlarged XL Group's business, financial condition and results of operations:

- having greater exposure to the Council of Lloyd's (the "Council") wide discretionary powers to regulate members of Lloyd's, including the Council's power to vary the method by which the capital solvency ratio is calculated;
- being subject to increased capital requirements due to changes in regulation;
- facing reputational issues arising from the actions of other Lloyd's syndicates;
- being subject to potential changes in business strategy due to requirements of the Lloyd's Franchise Board (which is responsible for the day-to-day management of the Lloyd's market);
- reduced underwriting capacity for the Enlarged XL Group due to a reduction in the funds held in trust at Lloyd's (as a result of changes in the market value of investments or otherwise) to support underwriting activities;
- being required to cease or reduce underwriting if Lloyd's fails to satisfy the FCA's and the PRA's annual solvency test in any given year;
- having a reduced ability to trade in certain classes of business at current levels as a consequence of a downgrading of the Lloyd's market;
- being subject to additional or special levies imposed by the Council; and
- as a Lloyd's syndicate transacting certain types of business in the United States, being required by U.S. regulators to increase the level of funding required as minimum deposits for the protection of U.S. policyholders and, as a consequence, being required to make cash calls to meet claims payments and deposit funding obligations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We operate in Bermuda, the United States, Europe and various other locations around the world. In 1997, we acquired commercial real estate in Hamilton, Bermuda for the purpose of securing long-term office space for our worldwide headquarters. The development was completed in April 2001. The total cost of this development, including land, was approximately $126.6 million. We have subsequently sub-leased portions of this property as a part of our broader expense reduction initiatives.

In July 2003, we acquired new offices at 70 Gracechurch Street, London, which have become our London headquarters. The acquisition was made through a purchase, sale and leaseback transaction. The move to the new offices was completed in 2004 and consolidated our London businesses in one location. The capital lease asset and liability associated with this transaction totaled $82.8 million at December 31, 2014.

In June 2012, we acquired new offices at 8 St. Stephen's Green, Dublin, Ireland as our new global headquarters. The final acquisition purchase price was $11.4 million and further improvement costs totaled $9.6 million. Completion of the new office and consolidation of our then existing Dublin locations occurred in mid-2013.

Each of our reporting segments uses the properties described above. All other office facilities throughout the world that are occupied by us and our subsidiaries are leased.

Total rent expense for the years ended December 31, 2014, 2013 and 2012 was $36.6 million, $38.7 million and $35.6 million, respectively. See Item 8, Note 19(d), "Commitments and Contingencies – Properties," to the Consolidated Financial Statements included herein, for discussion of our lease commitments for real property.

ITEM 3. LEGAL PROCEEDINGS

We are subject to litigation and arbitration in the normal course of our business. These lawsuits and arbitrations principally involve claims on policies of insurance and contracts of reinsurance and are typical for us and for the property and casualty insurance and reinsurance industry in general. Such claims proceedings are considered in connection with our 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, we 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. These types of actions typically involve, among other things, allegations of underwriting errors or misconduct, employment disputes, actions brought by or on behalf of shareholders 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. 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, we disclose 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 disclose that an estimate cannot be made. Based on our assessment at December 31, 2014, no such disclosures are considered necessary.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Executive Officers of the Registrant

The table below sets forth the names, ages and titles of the persons who were the executive officers of the Company at February 19, 2015:

Name	Age	Position
Michael S. McGavick	57	Chief Executive Officer and Director
Susan L. Cross	54	Executive Vice President and Global Chief Actuary
Kirstin Gould	48	Executive Vice President, General Counsel and Secretary
Gregory S. Hendrick	49	Executive Vice President and Chief Executive of Insurance Operations
W. Myron Hendry	66	Executive Vice President and Chief Platform Officer
Peter R. Porrino	58	Executive Vice President and Chief Financial Officer
Jacob D. Rosengarten	59	Executive Vice President and Chief Enterprise Risk Officer
Sarah E. Street	53	Executive Vice President and Chief Investment Officer
Eileen Whelley	61	Executive Vice President and Chief Human Resources Officer

Michael S. McGavick, was appointed as Director of the Company in April 2008, shortly prior to his commencement as the Company's Chief Executive Officer on May 1, 2008. Previously, Mr. McGavick was President & CEO of the Seattle-based Safeco Corporation from January 2001 to December 2005. Prior to joining Safeco, Mr. McGavick spent six years with the Chicago-based CNA Financial Corporation, where he held various senior executive positions before becoming President and Chief Operating Officer of the company's largest commercial insurance operating unit. Mr. McGavick's insurance industry experience also includes two years as Director of the American Insurance Association's Superfund Improvement Project in Washington D.C., where he became the Association's lead strategist in working to transform U.S. Superfund environmental laws.

Susan L. Cross was appointed to the Company's leadership team in August 2008, serving as Executive Vice President and Global Chief Actuary. Ms. Cross has served as Global Chief Actuary since 2006 and previously was Chief Actuary of the Company's reinsurance operations from 2004 to 2006 and Chief Actuary of XL Re Bermuda from 2002 to 2004. She also held various actuarial positions in the insurance and reinsurance operations of the Company from

1999 to 2002. Prior to joining the Company, Ms. Cross was Principal and Consulting Actuary at Tillinghast Towers Perrin.

Kirstin Gould was appointed Executive Vice President, General Counsel in September 2007, which position includes her prior responsibilities as General Counsel, Corporate Affairs and Corporate Secretary. In 2008, Ms. Gould also assumed leadership of the Communications, Marketing and Public Affairs department. Ms. Gould was previously Executive Vice President, General Counsel, Corporate Affairs from July 2006 to September 2007 and also served as Chief Corporate Legal Officer from November 2004 to July 2006, and Associate General Counsel from July 2001 to November 2004. Prior to joining the Company in 2000, Ms. Gould was associated with the law firms of Clifford Chance and Dewey Ballantine in London and New York.

Gregory S. Hendrick was appointed Executive Vice President and Chief Executive of Insurance Operations in January 2012. From October 2010 to January 2012, Mr. Hendrick served as Executive Vice President, Strategic Growth. From 2004 to October 2010, Mr. Hendrick served as President and Chief Underwriting Officer of XL Re Ltd. Previously, he served as head of U.S. Property Treaty underwriting at XL Re Ltd and Vice President responsible for U.S. Property Underwriting for XL Mid Ocean Reinsurance Ltd. Prior to joining XL, Mr. Hendrick was Assistant Vice President of Treaty Underwriting for the Winterthur Reinsurance Corporation of America.

W. Myron Hendry joined the Company's leadership team upon his appointment as Executive Vice President, Chief Platform Officer in December 2009. Prior to joining the Company, from 2006 to December 2009, Mr. Hendry served as Business Operations Executive of Bank of America's Insurance Group, joining there from a merger with Countrywide Insurance Services Group. Prior to the merger, Mr. Hendry served as Managing Director and Chief Operating Officer for Countrywide and prior to this, from 2004 to 2006, Mr. Hendry served as Senior Vice President, Property and Casualty Services at Safeco. From 1971 to 2004, Mr. Hendry held various leadership roles with CNA Insurance, with his last assignment being the Senior Vice President of Worldwide Operations.

Peter R. Porrino was appointed Executive Vice President, Chief Financial Officer in August 2011. Previously, Mr. Porrino served as Ernst & Young's Global Director of Insurance Industry Services from 1999 to August 2011. Mr. Porrino first joined Ernst & Young in 1978 and served in the firm's New York and National insurance practices for 15 years before leaving to serve in senior management positions with several insurance companies. This experience includes Zurich Financial Services, where Mr. Porrino served as CFO of Zurich's NYSE-listed subsidiary, Zurich Reinsurance Centre, Inc. He rejoined Ernst & Young in 1999.

Jacob D. Rosengarten joined the Company's leadership team and was appointed Executive Vice President, Chief Enterprise Risk Officer in September 2008. Prior to joining the Company, Mr. Rosengarten served as Managing Director of Risk Management and Analytics for Goldman Sachs Asset Management from 1998 to 2008. From 1993 to 1997, Mr. Rosengarten served as Director of Risk and Quantitative Analysis at Commodities Corporation and prior to this, from 1983 to 1992 held progressively senior finance positions at Commodities Corporation.

Sarah E. Street was appointed to the position of Executive Vice President and Chief Investment Officer in October 2006. Ms. Street has also served as the Chief Executive Officer of XL Group Investments LLC (formerly XL Capital Investment Partners Inc.) since April 2001. Prior to joining XL in 2001, Ms. Street held numerous leadership positions at JPMorganChase and its predecessor organizations, working in a number of corporate finance units as well as in the capital markets business of the bank.

Eileen Whelley was appointed to the Company's leadership team in June 2012, serving as Executive Vice President, Chief Human Resources Officer, where she is responsible for global talent acquisition, leadership and professional development, succession planning, compensation and benefit program design and administration, employee relations, organizational effectiveness, performance management, HR information systems and payroll. Prior to joining the Company, from 2006 to 2012, Ms. Whelley served as Executive Vice President, Human Resources, for The Hartford Financial Services Group, Inc. Prior to that, Ms. Whelley spent 17 years at General Electric, where she held a number of human resources leadership roles, including Executive Vice President of Human Resources for NBC Universal and Vice President of Human Resources Excellence for GE Capital. She also served in various HR roles at Citicorp and Standard Oil of Ohio.

Non-Employee Directors of the Registrant

Robert R. Glauber has been the non-executive Chairman of the Board since April 2009 and a director since September 2006, having originally served on our Board from 1998 to May 2005. Mr. Glauber is presently a Lecturer at the Harvard Kennedy School of Government.

Ramani Ayer has been a director since February 2011. Previously, Mr. Ayer served as the Chairman of the board and Chief Executive Officer of The Hartford Financial Services Group Inc., a leading provider of insurance and wealth management services.

Dale Comey has been a director since November 2001. Previously, Mr. Comey was Executive Vice President of ITT Corporation, where he was responsible for directing the operations of several business units, including ITT Hartford and ITT Financial Corporation.
Edward J. "Ned" Kelly, III has been a director since August 2014. Previously Mr. Kelly was Chairman of the board of Citigroup Inc. Institutional Clients Group, Citi's Chief Financial Officer, General Counsel and Secretary of JP Morgan & Co. Incorporated and Managing Director of the Carlyle Group.
Suzanne B. Labarge has been a director since October 2011. Previously, Ms. Labarge served as the Vice Chairman and Chief Risk Officer of Royal Bank of Canada (RBC Financial Group), a diversified financial services company.
Joseph Mauriello has been a director since January 2006. Previously, Mr. Mauriello was the Deputy Chairman, Chief Operating Officer and a director of KPMG LLP (United States) and KPMG Americas Region, a leading provider of audit, tax and advisory services.
Eugene M. McQuade has been a director since July 2004. Mr. McQuade currently serves as the CEO and a director of Citibank, N.A., the commercial banking arm of Citigroup, and is a member of Citigroup’s Operating Committee.
Clayton S. Rose has been a director since December 2009. Dr. Rose is presently a Professor of Management Practice at the Harvard Business School.
Anne Stevens has been a director since April 2014. Ms. Stevens currently serves as Chairman of the board, Chief Executive Officer and Principal of SA IT Services. Previously, Ms. Stevens was Chief Operations Officer for the Americas at the Ford Motor Company, and more recently was Chairman of the board, Chief Executive Officer and President of Carpenter Technology Corp.
Sir John M. Vereker has been a director since November 2007. Previously, Sir John Vereker was the Governor and Commander-in-Chief of Bermuda.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our ordinary shares, $0.01 par value per share, are listed on the NYSE under the symbol “XL.”

The following table sets forth the high, low and closing sales prices per share of our ordinary shares per fiscal quarter, as reported on the New York Stock Exchange Composite Tape, and cash dividends on the ordinary shares for the periods indicated:

	High	Low	Close	Dividends
2014				
1st Quarter	$31.85	$27.79	$31.25	$0.16
2nd Quarter	$33.41	$30.54	$32.73	$0.16
3rd Quarter	$35.52	$31.83	$33.17	$0.16
4th Quarter	$36.35	$30.83	$34.37	$0.16
2013				
1st Quarter	$30.61	$25.20	$30.30	$0.14
2nd Quarter	$32.96	$28.88	$30.32	$0.14
3rd Quarter	$33.12	$29.48	$30.82	$0.14
4th Quarter	$32.29	$29.62	$31.84	$0.14

The number of record holders of ordinary shares at February 19, 2015 was 150. This figure does not represent the actual number of beneficial owners of our ordinary shares because such shares are frequently held in “street name” by securities dealers and others for the benefit of individual owners who may vote the shares.

In 2014, four quarterly dividends of $0.16 per share were paid to all ordinary shareholders of record as of March 14, June 13, September 15 and December 15. In 2013, four quarterly dividends of $0.14 per share were paid to all ordinary shareholders of record as of March 15, June 14, September 13 and December 13. On February 20, 2015, we announced that the Board of Directors of XL-Ireland declared a quarterly dividend on February 19, 2015 of $0.16 per share, payable on March 31, 2015 to all ordinary shareholders of record as of March 13, 2015.

The declaration and payment of future dividends will be at the discretion of the XL-Ireland Board and will depend upon many factors, including our earnings, financial condition, business needs, consideration of other methods of returning capital to shareholders, capital and surplus requirements of our operating subsidiaries and regulatory and contractual restrictions.

As a holding company, our assets consist primarily of investments in subsidiaries. Accordingly, we rely on the availability of dividends and other permissible payments from our subsidiaries to pay ordinary and preferred dividends. Our subsidiaries' payment of dividends to us are regulated under the laws of various jurisdictions including Bermuda, the U.K., Ireland, Switzerland and the other jurisdictions where we have regulated subsidiaries, by certain insurance statutes of various states in the United States in which our principal operating subsidiaries are licensed to transact business and by the Society of Lloyd’s. In addition, under Irish law, XL-Ireland may only pay dividends or buyback or redeem shares using distributable reserves and may not pay any dividend or make any distribution unless the net assets of XL-Ireland are not less than the aggregate of its share capital plus undistributable reserves and the distribution does not reduce XL-Ireland’s net assets below such aggregate. See Item 1, “Business – Regulation,” Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Item 8, Note 25, “Statutory Financial Data,” to the Consolidated Financial Statements included herein, for further discussion.

The following table summarizes our equity compensation plan information at December 31, 2014:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Share-Based Compensation Plans (Excluding Securities in column (a)) (c)
Share-based compensation plans approved by security holders (1)	10,524,539	$32.42	10,316,461
Share-based compensation plans not approved by security holders	—	—	—
Total	10,524,539	$32.42	10,316,461

(1) Pertains to our 1991 Performance Incentive Program and the Directors Stock & Option Plan. Includes for the 1991 Performance Incentive Program, 10,371,634 ordinary shares to be issued upon the exercise of outstanding options, warrants and rights, a $32.53 weighted average exercise price of outstanding options, warrants and rights, and 10,259,422 ordinary shares remaining available for future issuance under equity compensation plans (excluding securities reflected in column a). Includes for the Directors Stock & Option Plan, 152,905 ordinary shares to be issued upon exercise of outstanding options, warrants and rights, a $24.47 weighted average exercise price of outstanding options, warrants and rights, and 57,039 ordinary shares remaining available for future issuance under equity compensation plans (excluding securities reflected in column a).

Purchases of Equity Securities by the Issuer and Affiliate Purchasers

The following table provides information about purchases by us during the quarter ended December 31, 2014 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Value of Shares that May Yet Be Purchased Under the Publicly Announced Plans or Programs (1) (2)
October 1, 2014 to October 31, 2014	2,292,148	$32.77	2,291,210	$367.6 million
November 1, 2014 to November 30, 2014	2,884,685	$34.65	2,884,685	$267.6 million
December 1, 2014 to December 31, 2014	—	$—	—	$267.6 million
Total	5,176,833	$33.82	5,175,895	$267.6 million

(1) Shares purchased in connection with the vesting of restricted shares granted under our equity compensation programs do not represent shares purchased as part of publicly announced plans or programs. All such purchases were made in connection with satisfying tax withholding obligations of those employees. These shares were not purchased as part of our share buyback program noted below.

(2) For information regarding our share buyback activity, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Other Key Focuses of Management - Buybacks of Ordinary Shares" included herein.

Ordinary Share Performance Graph

Set forth below is a line graph comparing the yearly dollar change in the cumulative total shareholder return over a five-year period on our ordinary shares from December 31, 2009 through December 31, 2014 to the cumulative total

return of the Standard & Poor's 500 Stock Index and the cumulative total return of the Standard & Poor's Property & Casualty Insurance Index. The companies included in these indices or noted as competitors under Item 1, "Business," may not be included in our compensation peer group.

The graph shows the value on December 31, 2010, 2011, 2012, 2013 and 2014, of a $100 investment made on December 31, 2009, with all dividends reinvested.

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data below is based upon our fiscal year end of December 31. The selected consolidated financial data should be read in conjunction with the Consolidated Financial Statements and the Notes thereto presented under Item 8.

(U.S. dollars in thousands, except per share amounts)	2014	2013	2012	2011	2010
Income Statement Data:					
Net premiums earned	$5,895,070	$6,309,521	$6,090,437	$5,690,130	$5,414,061
Net investment income	$918,625	$957,716	$1,012,348	$1,137,769	$1,198,038
Net realized gains (losses) on investments	$122,991	$87,777	$14,098	$(188,359)	$(270,803)
Net realized gains (losses) on investments - Life Funds Withheld Assets	$(15,520)	$—	$—	$—	$—
Net unrealized gains (losses) on investments, trading securities ("Trading") - Life Funds Withheld Assets	$(9)	$—	$—	$—	$—
Net realized and unrealized gains (losses) on derivative instruments	$29,886	$7,798	$5,221	$(10,738)	$(33,843)
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	$(488,222)	$—	$—	$—	$—
Net income (loss) from investment fund affiliates (1)	$95,816	$138,391	$58,504	$26,253	$51,102
Fee income and other	$43,630	$40,031	$51,789	$41,748	$40,027
Net losses and loss expenses incurred	$3,258,393	$3,731,464	$3,765,482	$4,078,391	$3,211,800
Claims and policy benefits – life operations	$242,963	$465,702	$486,195	$535,074	$513,833
Acquisition costs, operating expenses and foreign exchange gains and losses	$2,041,865	$2,094,258	$2,097,992	$1,869,688	$1,751,060
Interest expense	$134,106	$155,462	$172,204	$205,592	$213,643
Loss on sale of life reinsurance subsidiary	$666,423	$—	$—	$—	$—
Loss on settlement of guarantee	$—	$—	$—	$—	$23,500
Impairment of goodwill	$—	$—	$—	$429,020	$—
Income (loss) before non-controlling interests, net income from operating affiliates and income tax expense	$258,517	$1,094,348	$710,524	$(420,962)	$684,746
Income (loss) from operating affiliates (1)(2)	$107,218	$119,804	$53,887	$76,786	$121,372
Preference share dividends (3)	$76,743	$77,187	$79,087	$72,278	$74,521
Net income (loss) attributable to ordinary shareholders	$188,340	$1,059,916	$651,128	$(474,760)	$585,472

(U.S. dollars in thousands, except per share amounts)	2014	2013	2012	2011	2010
Per Share Data:					
Earnings (loss) per ordinary share and ordinary share equivalent – basic	$0.71	$3.68	$2.12	$(1.52)	$1.74
Earnings (loss) per ordinary share and ordinary share equivalent – diluted	$0.69	$3.63	$2.10	$(1.52)	$1.73
Weighted average ordinary shares and ordinary share equivalents outstanding – diluted	271,527	292,069	310,282	312,896	337,709
Cash dividends per ordinary share	$0.64	$0.56	$0.44	$0.44	$0.40
Balance Sheet Data:					
Total investments – available for sale (“AFS”)	$30,484,053	$28,996,661	$28,818,982	$27,017,285	$27,677,553
Total investments – held to maturity (“HTM”)	$—	$2,858,695	$2,814,447	$2,668,978	$2,728,335
Cash and cash equivalents	$2,521,814	$1,800,832	$2,618,378	$3,825,125	$3,022,868
Investments in affiliates	$1,637,620	$1,370,943	$1,126,875	$1,052,729	$1,127,181
Unpaid losses and loss expenses recoverable	$3,429,368	$3,435,230	$3,382,102	$3,654,948	$3,671,887
Premiums receivable	$2,473,736	$2,612,602	$2,568,862	$2,411,611	$2,414,912
Total assets	$45,046,819	$45,652,887	$45,386,895	$44,665,265	$44,995,040
Unpaid losses and loss expenses	$19,353,243	$20,481,065	$20,484,121	$20,613,901	$20,531,607
Future policy benefit reserves	$4,707,199	$4,803,816	$4,812,046	$4,845,394	$5,075,127
Funds withheld on life retrocession arrangements (net of future policy benefit reserves recoverable)	$1,155,016	$—	$—	$—	$—
Unearned premiums	$3,973,132	$3,846,526	$3,755,086	$3,555,310	$3,484,830
Notes payable and debt	$1,662,580	$2,263,203	$1,672,778	$2,275,327	$2,457,003
Shareholders’ equity	$11,435,767	$11,349,298	$11,856,403	$10,756,130	$10,599,769
Fully diluted tangible book value per ordinary share	$36.79	$33.86	$33.35	$28.31	$27.14
Operating Ratios:					
Loss and loss expense ratio (4)	57.0%	62.0%	65.3%	76.6%	63.8%
Underwriting expense ratio (5)	31.2%	30.5%	31.0%	30.9%	31.0%
Combined ratio (6)	88.2%	92.5%	96.3%	107.5%	94.8%

(1) We generally record the income related to alternative fund affiliates on a one-month lag and the private investment fund affiliates on a three-month lag in order for us to meet the filing deadlines for our periodic reports. We generally record the income related to operating affiliates on a three-month lag.

(2) In 2010, net income from operating affiliates included $50.2 million relating to the sale of a majority of our shareholdings in Primus Guaranty Ltd.

(3)

Preference dividends represent dividends on the Redeemable Series C preference ordinary shares and the Series D and E preference ordinary shares. Following our Redomestication, subsequent to July 1, 2010, the Redeemable Series C preference ordinary shares and the Series D and E preference ordinary shares represent non-controlling interests in our consolidated financial statements. For additional information see Item 8, Note 20, "Share Capital," to the Consolidated Financial Statements.

(4) The loss and loss expense ratio related to the property and casualty operations is calculated by dividing the losses and loss expenses incurred by the net premiums earned for the Insurance and Reinsurance segments.

(5) The underwriting expense ratio related to the property and casualty operations is the sum of acquisition expenses and operating expenses for the Insurance and Reinsurance segments divided by net premiums earned for the Insurance and Reinsurance segments. See Item 8, Note 5, "Segment Information," to the Consolidated Financial Statements included herein, for further information.

(6) The combined ratio related to the property and casualty operations is the sum of the loss and loss expense ratio and the underwriting expense ratio. A combined ratio under 100% represents an underwriting profit and over 100% represents an underwriting loss.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains forward-looking statements which involve inherent risks and uncertainties. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based upon current plans, estimates and expectations. Actual results may differ materially from those projected in such forward-looking statements, and therefore undue reliance should not be placed on them. See "Cautionary Note Regarding Forward-Looking Statements," for a list of additional factors that could cause actual results to differ materially from those contained in any forward-looking statement.

This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes thereto presented under Item 8.

Certain aspects of our business have loss experience characterized as low frequency and high severity. This may result in volatility in both our results of operations and financial condition.

Index

Cautionary Note Regarding Forward-Looking Statements	59
Executive Overview	61
Results of Operations and Key Financial Measures	64
Reconciliation of Non-GAAP Measures	68
Significant Items Affecting the Results of Operations	69
Other Key Focuses of Management	72
Critical Accounting Policies and Estimates	74
Segments	84
Income Statement Analysis	84
Insurance	84
Reinsurance	88
Corporate and Other (Including Run-Off Life Operations)	91
Investment Performance (Excluding Life Funds Withheld Assets)	92
Investment Activities (Excluding Life Funds Withheld Assets)	93
Net Realized Gains and Losses on Investments and Other-Than-Temporary Declines in the Value Of Investments	93
Net Realized and Unrealized Gains and Losses on Investment Related Derivative Instruments	94
Other Revenues and Expenses	94
Balance Sheet Analysis	96
Investments (Excluding Life Funds Withheld Assets)	96
Gross and Net Unrealized Gains and Losses on Investments	98
Fair Value Measurements of Assets and Liabilities	100
Unpaid Losses and Loss Expenses	102
Unpaid Losses and Loss Expenses Recoverable and Reinsurance Balances Receivable	102
Liquidity and Capital Resources	103
Holding Company Liquidity	104
Sources of Liquidity	105
Capital Resources	106
Covenants	109
Subsequent Events	110
Cross-Default and Other Provisions in Debt Instruments	110
Long-Term Contractual Obligations	111
Variable Interest Entities and Other Off-Balance Sheet Arrangements	111
Recent Accounting Pronouncements	111

Cautionary Note Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 ("PSLRA") provides a "safe harbor" for forward-looking statements. Any prospectus, prospectus supplement, Annual Report to ordinary shareholders, proxy statement, Form 10-K, Form 10-Q or Form 8-K or any other written or oral statements made by us or on our behalf may include forward-looking statements that reflect our current views with respect to future events and financial performance. Such statements include forward-looking statements both with respect to us in general, and to the insurance and reinsurance sectors in particular (both as to underwriting and investment matters). Statements that include the words "expect," "intend," "plan," "believe," "project," "anticipate," "may," "could" or "would" and similar statements of a future or forward-looking nature iden forward-looking statements for purposes of the PSLRA or otherwise.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in such statements. We believe that these factors include, but are not limited to, the following:

changes in the size of our claims relating to natural or man-made catastrophe losses due to the preliminary nature of some reports and estimates of loss and damage to date;

trends in rates for property and casualty insurance and reinsurance;

the timely and full recoverability of reinsurance placed by us or Catlin, if the Acquisition of Catlin is completed, with third parties, or other amounts due to us or Catlin;

changes in the projected amount of ceded reinsurance recoverables and the credit ratings and creditworthiness of reinsurers;

actual loss experience from insured or reinsured events and the timing of claims payments being faster or the receipt of reinsurance recoverables being slower than we anticipated;

increased competition on the basis of pricing, capacity, coverage terms or other factors, such as the increased inflow of third-party capital into reinsurance markets, which could harm our ability, including Catlin, if the Acquisition is completed, to maintain or increase our business volumes or profitability;

greater frequency or severity of claims and loss activity than anticipated, based on historical experience or industry data, by the underwriting, reserving or investment practices that we use or that Catlin uses, if the Acquisition is completed;

changes in the global financial markets, including the effects of inflation on our business, including Catlin's business if the Acquisition is completed, including on pricing and reserving, increased government involvement or intervention in the financial services industry, and changes in interest rates, credit spreads, foreign currency exchange rates and future volatility in the world's credit, financial and capital markets that adversely affect the performance and valuation of either our or Catlin's investments, financing plans and access to such markets or general financial condition;

our and Catlin's ability to successfully implement our respective business strategies, and if the Acquisition is completed, our ability to implement Catlin's business strategies;

our ability to successfully attract and raise additional third party capital for existing or new investment vehicles;

the potential impact on us, including Catlin if the Acquisition is completed, from government-mandated insurance coverage for acts of terrorism;

changes in credit ratings or rating agency policies or practices;

the potential for changes to methodologies, estimations and assumptions that underlie the valuation of our financial instruments, including those of Catlin if the Acquisition is completed, that could result in changes to investment valuations;

changes to our assessment as to whether it is more likely than not that we will be required to sell, or have the intent to sell, available for sale fixed maturity securities before their anticipated recovery, including fixed maturity securities of Catlin;

the availability of borrowings and letters of credit under our, or, if the Acquisition is completed, Catlin's, credit facilities;

the ability of our, or, if the Acquisition is completed, Catlin's, respective subsidiaries to pay dividends to XL Group and XL-Cayman or Catlin, respectively;

the potential effect of legislative or regulatory developments in the jurisdictions in which we operate, including, if the Acquisition is completed, the jurisdictions in which Catlin operates, such as those that could impact the financial markets or increase our business costs and required capital levels, including but not limited to changes in regulatory capital balances that must be maintained by our operating subsidiaries and governmental actions for the purpose of stabilizing the financial markets;

the effects of business disruption, economic contraction or economic sanctions due to global political and social conditions such as war, terrorism or other hostilities, or pandemics;

changes in regulations or laws applicable to us and our subsidiaries and, if the Acquisition is completed, Catlin and its subsidiaries, brokers or customers;

the actual amount of new and renewal business and acceptance of our, and, if the Acquisition is completed, Catlin's, products and services, including new products and services and the materialization of risks related to such products and services;
changes in the availability, cost or quality of ceded reinsurance;
changes in the distribution or placement of risks due to increased consolidation of insurance and reinsurance brokers;
loss of key personnel;
changes in accounting standards, policies or practices or the application thereof;
the effects of mergers, acquisitions and divestitures, including our ability to modify our internal control over financial reporting as a result of any of such transactions and our ability to realize the value or benefits expected as a result of the life retrocession arrangements and the Acquisition;
changes in general economic conditions, including new or continued sovereign debt concerns in Euro-Zone countries or downgrades of U.S. securities by credit rating agencies, which could affect our financial condition, results of operations, liquidity or cash flows;
developments related to bankruptcies or other financial concerns of companies insofar as they affect property and casualty insurance and reinsurance coverages or claims that we may have as a counterparty;
changes in applicable tax laws, tax treaties or tax regulations or the interpretation or enforcement thereof;
judicial decisions and rulings, new theories of liability or emerging claims coverage issues, legal tactics and settlement terms; and
the other factors set forth in Item 1A, "Risk Factors," and our other documents on file with the SEC.

Additionally, the Acquisition is subject to risks and uncertainties, including:

we and Catlin may be unable to complete the Acquisition because, among other reasons, conditions to the completion of the Acquisition may not be satisfied or waived, including the failure to obtain required regulatory approvals, or the other party may be entitled to terminate the Acquisition;
receipt of regulatory approvals required by the Acquisition may be subject to conditions, limitations and restrictions that could negatively impact the business and operations of the combined company;
uncertainty as to the timing of completion of the Acquisition;
the ability to obtain approval of the Acquisition by Catlin shareholders;
uncertainty as to the actual premium (if any) that will be realized by Catlin shareholders in connection with the Acquisition;
inability to retain key personnel of the Company or Catlin during the pendency of the Acquisition or after completion of the Acquisition;
failure to realize the potential synergies from the Acquisition, including as a result of the failure, difficulty or delay in integrating Catlin's businesses into the Company; and
the ability of Catlin's board of directors to withdraw its recommendation of the Acquisition.

The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included herein or elsewhere. We undertake no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by the federal securities laws.

Executive Overview

Background

We are, through our subsidiaries, a global insurance and reinsurance company providing property, casualty and specialty products to industrial, commercial and professional firms, insurance companies and other enterprises on a worldwide basis. We operate in markets where we believe our underwriting expertise and financial strength represent a relative advantage. We earn revenue primarily from net premiums written and earned. For further information regarding our operations, see Item 1, “Business.”

Underwriting Environment and Outlook for 2015

The P&C insurance and reinsurance markets have historically been cyclical, meaning that based on market conditions, there have been periods where premium rates are high and policy terms and conditions are more favorable to us (a “hard market”) and there have been periods where premium rates decline and policy terms and conditions are less favorable (a “soft market”). Market conditions are driven primarily by competition in the marketplace, the supply of capital in the industry, investment yields and the frequency and severity of loss events. Our goal is to build long-term shareholder value by capitalizing on current opportunities and managing through any cyclical downturns by reducing our property and casualty book of business and exposures if and when rates deteriorate during soft market periods.

The current soft market conditions and low interest rate environment continue to impact the P&C insurance and reinsurance markets with (re)insurance companies looking for ways to lower their cost of capital and improve the returns on their assets. As a result, they are being forced to re-evaluate their current approach to capital management and are looking toward alternative and secondary markets for enhanced returns, lower expenses and a lower cost of capital. Specifically, insurers find themselves in a market in which they need to have greater scale and diversification as a means to stay relevant in meeting the evolving demands of insureds and at the same time maintain profitability.

The reinsurance market continues to see a meaningful influx of third party capital from new and existing market participants in the property catastrophe space, which is expected to continue and potentially expand into other lines of business. With this additional capital, the traditional catastrophe market saw many changes including sizable increases in the overall global limits being provided, multi-year terms, and new aggregate structures as well as a meaningful increase in the number of alternative types of structures being provided such as catastrophe bonds. The market saw excess capacity as supply from both traditional markets and third party capital continued to outpace reinsurance demand. The combination of increased capacity and lower catastrophe losses resulted in pricing reductions, enhanced commissions and expanded coverage at attractive terms for insurers across most lines of business. The market also saw insurers combining separate regional programs or specialty and casualty sub lines into single global multi-line programs to get even further pricing improvements and expansion of terms and conditions. In addition, with the strengthened balance sheets of insurers and their push for expense savings to improve their bottom line, the reinsurance market saw increased retentions by insurers and a focus on maximizing their spend on reinsurance with a highly selective panel of reinsurers, particularly in the case of some larger insureds.

In 2014, we continued to focus on strategic growth initiatives, building on the significant investments we made in recent years to achieve greater efficiency from improved systems, to create a platform from which we can continue to grow as markets allow and to expand our margins. The following outlines some of these growth initiatives as well as recent renewal activity and January 2015 rate indications for each of our Insurance and Reinsurance segments together with any potential trends or uncertainties relevant to our P&C operations.

There can be no assurance, however, that the following (re)insurance rate conditions or growth opportunities will be sustained or further materialize, or lead to improvements in our books of business. See “Cautionary Note Regarding Forward-Looking Statements.”

Insurance

During the year ended December 31, 2014, overall rate changes were positive but momentum slowed as pricing has slipped below loss trend in several lines and as markets, particularly the shorter-tail lines, continue to deteriorate. In the fourth quarter of 2014, NAPC premiums were marginally down overall, as rate reductions of 6% in property were offset by rate increases of 2% in environmental and 1% in excess casualty. IPC experienced rate increases of 1% with nearly all lines positive. Professional businesses experienced rate decreases of approximately 1%, adversely impacted by high excess D&O business. Our Specialty businesses were most severely impacted with an overall rate decrease of

just over 2%, reflecting ongoing competitive aviation markets.
Growth was strong in our NAPC and Specialty business groups and concentrated in attractive lines of business. Our construction and primary casualty businesses contributed to growth in North America. New teams in both our marine and crisis management businesses contributed to the strong new business growth in Specialty. Global Professional was up mid-single

digits for the quarter with growth in our cyber and international books. Our International P&C book was also up slightly for the quarter.

The trading environment for our core lines of insurance business remains competitive and we continue to focus on those lines of business that we believe provide the best return on capital, including the writing of selective new business, and remain committed to taking the underwriting actions necessary to improve our margins.

Reinsurance

Given another light year for catastrophe loss activity and continued growth in reinsurance capacity for these risks, we experienced another very competitive renewal season at January 1, 2015. Rates adjusted down for both the U.S. and International catastrophe books, and we saw terms and conditions loosen to some degree in the U.S. Specifically, there was pressure on hourly clauses and reinstatement provisions, which resulted in some minor, incremental increases in coverage, which were captured in the risk adjusted rate decreases. There was also increased interest in multi-year contracts, expanded geographic scope and placements with aggregate features. We also experienced an extremely competitive environment with respect to long tail and specialty markets, with pressure on both pricing and terms and conditions, specifically commission structures on proportional placements.

We continue to navigate our way cautiously through this phase of the market and are trading with long standing clients with proven track records, which allowed us to write a January 1 portfolio that was largely in line with our expectations from both a mix and profitability perspective.

Investment Environment

We seek to generate book value growth and investment income from investment activities through the total return on our investment portfolio. Market volatility increased during 2014 due to regional geopolitical events, a fall in commodity prices, particularly oil, and slowing global growth outside of the United States. Major market interest rates declined and curves flattened year over year as economic instability (excluding in the United States) and the lack of inflationary pressures are sustaining accommodative monetary policies by most Central Banks. In particular, a large portion of German and Swiss government bonds are currently reflecting negative yields.

During the year ended December 31, 2014, the positive mark to market change of $1.0 billion on our AFS investments was driven by the benefit of a $424.9 million unrealized gain when our HTM assets were reclassified to available for sale investments in conjunction with the sale of our life reinsurance subsidiary, as noted below, as well as government rate decreases in all of our major investment markets. This represents an approximately 2.4% appreciation in average assets for the year ended December 31, 2014. Net realized gains resulted primarily from sales of equities and fixed maturities. For further information, see “Investment Activities” below.

Sale of Life Reinsurance Subsidiary

On May 1, 2014, our wholly-owned subsidiary, XLIB, entered into a sale and purchase agreement with GreyCastle providing for the sale of 100% of the common shares of XLIB's wholly-owned subsidiary, XLLR to GreyCastle. This transaction closed on May 30, 2014. As a result of the transaction, we have ceded the majority of our life reinsurance business under the Life Retro Arrangements. This transaction covers a substantial portion of our life reinsurance reserves. We announced the run-off of our life reinsurance business in 2009.

Our net income (loss) attributable to ordinary shareholders and other financial measures as shown below for the year ended December 31, 2014 has been affected by the sale of our life reinsurance subsidiary that was completed during the second quarter of 2014 and resulted in an overall after-tax GAAP net loss of $621.3 million. For further information on this transaction and its impact on our net income (loss) attributable to ordinary shareholders and other financial measures for the year ended December 31, 2014 see “Significant Items Affecting the Results of Operations" below and Item 8, Note 3, “Sale of Life Reinsurance Subsidiary,” to the Consolidated Financial Statements included herein.

See “Significant Items Affecting Results of Operations—1) Sale of Life Reinsurance Subsidiary” below for further information.

Subsequent Events

Catlin Acquisition

On January 9, 2015, we entered into the Implementation Agreement with Catlin and Green Holdings, a direct, wholly-owned subsidiary of XL-Ireland, pursuant to the Acquisition for cash and newly-issued ordinary shares of

XL-Ireland. Under the terms of the Acquisition, Catlin shareholders will be entitled to receive 388 pence in cash and 0.130 ordinary shares of XL-

Ireland, in exchange for each Catlin Share, subject to the proration and adjustment mechanisms set forth in the Implementation Agreement. On the basis of the closing price of an ordinary share of XL-Ireland on January 8, 2015 of $35.42, the Acquisition values Catlin at 693 pence per Catlin Share, representing a transaction equity value of approximately $4.1 billion. For further information on the Acquisition, see the Company’s Report on Form 8-K filed with the SEC on January 9, 2015 under Items 1.01, 2.03, 8.01 and 9.01.

On January 9, in connection with the Acquisition, XL-Cayman, as borrower, XL-Ireland, X.L. America, Inc., XLIB, XL Re Ltd, and XL Life Ltd, as guarantors, Morgan Stanley Senior Funding, Inc., as administrative agent, and the lenders party thereto entered into a senior unsecured 364-Day Bridge Loan Agreement providing for a £1.6 billion Bridge Facility. The proceeds of the Bridge Facility may be used to finance the payment of the cash consideration in connection with the Acquisition and to pay fees and expenses related thereto. For further information on the Bridge Facility, see the Company's Report on Form 8-K filed with the SEC on January 9, 2015 under Items 1.01, 2.03, 8.01 and 9.01.

Sale of Strategic Operating Affiliate

On December 15, 2014, XL Re Ltd ("XL Re"), an indirect wholly-owned subsidiary of the Company, and other shareholders of our affiliate, ARX Holding Corporation ("ARX"), entered into a Stock Purchase Agreement with The Progressive Corporation ("Progressive") to sell all of its shares in ARX to Progressive. XL Re's shares in ARX represented approximately 40% of ARX's outstanding capital stock on a fully diluted basis at the time of the announcement. At December 31, 2014, the recorded value of XL Re's shares in ARX of $204.4 million was included within Investments in Affiliates.

The transaction is expected to close in the second quarter of 2015 and is subject to regulatory approvals and satisfaction of other closing conditions. XL Re anticipates proceeds of approximately $500 million related to the sale, which will be based upon the consolidated tangible net book value of ARX and its subsidiaries as of December 31, 2014, and certain other factors.

Results of Operations and Key Financial Measures

Results of Operations

The following table presents an analysis of our net income (loss) attributable to ordinary shareholders and other financial measures (described below) for the years ended December 31, 2014, 2013 and 2012:

(U.S. dollars in thousands, except share and per share amounts)	2014	2013	2012
Net income (loss) attributable to ordinary shareholders	$188,340	$1,059,916	$651,128
Earnings (loss) per ordinary share – basic	$0.71	$3.68	$2.12
Earnings (loss) per ordinary share – diluted	$0.69	$3.63	$2.10
Weighted average number of ordinary shares and ordinary share equivalents outstanding, in thousands – basic	267,103	287,801	307,372
Weighted average number of ordinary shares and ordinary share equivalents outstanding, in thousands – diluted	271,527	292,069	310,282

Key Financial Measures

The following are some of the financial measures management considers important in evaluating our operating performance:

(U.S. dollars in thousands, except ratios and per share amounts)	2014	2013	2012	Change 2014 to 2013	Change 2013 to 2012
Underwriting profit (loss) - P&C operations	$676,046	$451,062	$216,132	49.9 %	N/M
Combined ratio - P&C operations	88.2 %	92.5 %	96.3 %	(4.3)pts	(3.8)pts
Net investment income - P&C operations (1)	$642,492	$671,071	$712,905	(4.3)%	(5.9)%
Operating net income (2)	$999,241	$942,968	$614,096	6.0 %	53.6 %
Operating net income per share (2)	$3.68	$3.23	$1.98	$0.45	$1.25
Return on average ordinary shareholders' equity (2)	1.9 %	10.3 %	6.5 %	(8.4)pts	3.8pts
Operating return on average ordinary shareholders' equity (2)	10.0 %	9.2 %	6.2 %	0.8pts	3.0pts
Operating return on average ordinary shareholders' equity excluding unrealized gains and losses on investments (2)	11.2 %	10.3 %	6.9 %	0.9pts	3.4pts
Book value per ordinary share (2)	$39.31	$35.92	$35.18	$3.39	$0.74
Fully diluted tangible book value per ordinary share (2)	$36.79	$33.86	$33.35	$2.93	$0.51

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(1) Net investment income - P&C operations includes: Net investment income - excluding Life Funds Withheld Assets and net investment income related to the net results from structured products.

(2) Represents a non-GAAP financial measure as discussed further below.

*N/M - Not Meaningful

The following are descriptions of these key financial measures and a brief discussion of the factors influencing them:

Underwriting profit – property and casualty ("P&C") operations

One way that we evaluate the performance of our insurance and reinsurance operations is by underwriting profit or loss. We do not measure performance based on the amount of gross premiums written. Underwriting profit or loss is calculated from premiums earned less net losses incurred and expenses related to underwriting activities.

In the following discussion as well as in the "Income Statement Analysis" section, the following ratios are used to explain the underwriting profit (loss) from our P&C operations:

The combined ratio related to the P&C operations is the sum of the loss and loss expense ratio and the underwriting expense ratio. A combined ratio under 100% represents an underwriting profit and over 100% represents an underwriting loss. In the P&C industry, the combined ratio is a widely used measure of underwriting profitability.
The loss and loss expense ratio related to the P&C operations is calculated by dividing the losses and loss expenses incurred by the net premiums earned for the Insurance and Reinsurance segments.
The underwriting expense ratio related to the P&C operations is the sum of acquisition costs and operating expenses for the Insurance and Reinsurance segments divided by net premiums earned for the Insurance and Reinsurance segments.
The acquisition expense ratio related to the P&C operations is calculated by dividing the acquisition costs incurred by the net premiums earned for the Insurance and Reinsurance segments.
The operating expense ratio related to the P&C operations is calculated by dividing the operating expenses incurred by the net premiums earned for the Insurance and Reinsurance segments.

Our underwriting profit (loss) in the year ended December 31, 2014 was consistent with the combined ratio, discussed below.

Combined ratio – P&C operations

The following table presents the ratios for our P&C operations for the indicated years ended December 31:

	2014	2013	2012	Percentage Point Change 2014 to 2013	Percentage Point Change 2013 to 2012
Loss and loss expense ratio	57.0 %	62.0 %	65.3 %	(5.0)	(3.3)
Acquisition expense ratio	12.7 %	14.7 %	15.1 %	(2.0)	(0.4)
Operating expense ratio	18.5 %	15.8 %	15.9 %	2.7	(0.1)
Underwriting expense ratio	31.2 %	30.5 %	31.0 %	0.7	(0.5)
Combined ratio	88.2 %	92.5 %	96.3 %	(4.3)	(3.8)

2014 vs 2013: The 4.3 percentage point reduction in our combined ratio was the result of a decrease in the loss and loss expense ratio of 5.0 percentage points, mainly due to lower levels of natural catastrophe losses and improved underwriting experience across several lines of business, partially offset by lower favorable prior year reserve development in 2014 compared to the same period of 2013. Losses net of reinsurance recoveries and reinstatement premiums related to natural catastrophe events for 2014 were $204.0 million lower than in 2013. The underwriting expense ratio increase of 0.7 percentage points was driven by an increase in operating expenses as a result of higher compensation costs from increased headcount as a result of business expansion, partially offset by a decrease in acquisition expenses due to a change in the reinsurance structure in the Professional business group in our Insurance segment.

2013 vs. 2012: The loss and loss expense ratio decrease was primarily as a result of lower levels of natural catastrophe losses in 2013, the impact of underwriting actions taken in the prior years on the current year loss ratio and favorable business mix, offset by a higher level of large non-natural catastrophe property losses in the Insurance segment in 2013 as compared to 2012. The underwriting expense ratio decrease was mainly due to both acquisition and operating expenses remaining relatively flat while net premiums earned increased 4.3% during 2013 as compared to the same period of 2012. For further information on our combined ratio, see “Income Statement Analysis” below.

Net investment income - P&C Operations

Net investment income - P&C operations, which includes interest and dividend income together with the amortization of premium and discount on fixed maturities and short-term investments, net of related investment expenses, is an important measure that affects our overall profitability. Our largest liability relates to our unpaid loss reserves, and our investment portfolio provides liquidity for claims settlements of these reserves as they become due. As a result, a significant part of the investment portfolio is invested in fixed income securities. Net investment income is influenced by a number of factors, including the amounts and timing of inward and outward cash flows, the level of interest rates and credit spreads, foreign exchange rates and changes in overall asset allocation. See the segment results at “Investment Activities” below for a discussion of our net investment income for the year ended December 31, 2014.

Operating net income and Operating net income per share

Operating net income is a non-GAAP financial measure defined as net income (loss) attributable to ordinary shareholders excluding: (1) our net investment income - Life Funds Withheld Assets, net of tax (2) our net realized gains (losses) on investments - excluding Life Funds Withheld Assets, net of tax, (3) our net realized gains (losses) on investments and net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets, net of tax, (4) our net realized and unrealized gains and losses on derivatives, net of tax, (5) our net realized and unrealized gains and losses on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets, net of tax, (6) our share of items (2) and (4) for our insurance company affiliates for the periods presented, (7) our loss on the sale of the life reinsurance subsidiary, XLLR, to GreyCastle, net of tax, and (8) our foreign exchange gains and losses, net of tax.

Operating net income per share is calculated by dividing the non-GAAP operating net income measure by the weighted average number of ordinary shares and ordinary share equivalents outstanding for each period combined with the impact from dilution of share-based compensation and certain conversion features where dilutive.

We evaluate the performance of and manage our business to produce an underwriting profit. Since we no longer share in the risks and rewards of the underlying performance of the investment results of the Life Funds Withheld Assets, we believe that showing operating net income (loss), in addition to GAAP net income (loss), enables investors and other users of our financial information to analyze our performance in a manner similar to how we analyze our performance. In this regard, we believe that providing only a GAAP presentation of net income (loss) would make it more difficult for users of our financial

65

information to evaluate our underlying business. We also believe that equity analysts and certain rating agencies that follow us (and the insurance industry as a whole) exclude these items from their analyses for the same reasons, and they request that we provide this non-GAAP financial information on a regular basis. A reconciliation of our net income (loss) attributable to ordinary shareholders to operating net income (loss) is provided at "Reconciliation of Non-GAAP Measures" below.

Return on average ordinary shareholders' equity ("ROE")

ROE is another non-GAAP financial measure that we consider important in evaluating our operating performance and view as a key measure of return generated for ordinary shareholders. ROE is calculated by dividing the net income (loss) attributable to ordinary shareholders for any period by the average of the opening and closing Shareholders' equity attributable to XL-Ireland. We establish minimum target ROEs for our total operations, segments and lines of business. If our minimum ROE targets over the longer term are not met with respect to any line of business, we seek to modify and/or exit this line. In addition, among other factors, compensation of our senior officers is dependent on the achievement of our performance goals to enhance ordinary shareholder value as measured by ROE (adjusted for certain items considered to be "non-operating" in nature).

The following table presents our ROE for the indicated years ended December 31:

	2014		2013		2012		Change 2014 to 2013	Change 2013 to 2012
ROE	1.9	%	10.3	%	6.5	%	(8.4)pts	3.8pts

2014 vs. 2013: The decrease in our ROE was due to the decrease in our net income attributable to ordinary shareholders as a result of the after-tax net loss on the sale of our life reinsurance subsidiary, XLLR, to GreyCastle, of $621.3 million and Net realized and unrealized losses on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets of $488.2 million. These items were partially offset by an improvement in our P&C operations' combined ratio, as described above.

For more information on the after-tax net loss on sale of XLLR to GreyCastle, and the Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets see Item 8, Note 3, "Sale of Life Reinsurance Subsidiary" and Note 16, "Derivative Instruments - (d)(iii) Other Non-Investment Derivatives," respectively, to the Consolidated Financial Statements included herein.

2013 vs. 2012: The increase in our ROE was primarily due to improved underwriting results in the year, combined with higher affiliate earnings and higher net realized gains on investments and derivatives than in the prior year period.

Operating return on average ordinary shareholders' equity ("Operating ROE")

Operating ROE is another non-GAAP financial measure that we consider important in evaluating our operating performance. Operating ROE is derived by dividing non-GAAP operating net income for any period by the average of the opening and closing ordinary shareholders' equity.

The following table presents our Operating ROE for the indicated years ended December 31:

	2014		2013		2012		Change 2014 to 2013	Change 2013 to 2012
Operating ROE	10.0	%	9.2	%	6.2	%	0.8pts	3.0pts

2014 vs. 2013: The increase in our Operating ROE was the result of higher operating net income in 2014 due to the improvement in our P&C combined ratio in 2014. A detailed discussion of our individual segment operating results is included below under "Income Statement Analysis".

2013 vs. 2012: The increase in our Operating ROE was the result of the higher operating net income in 2013 due to the factors discussed above as part of ROE and as further discussed below under "Significant Items Affecting the Results of Operations."

A reconciliation of Net income (loss) attributable to ordinary shareholders to operating net income (loss) is provided at "Reconciliation of Non-GAAP Measures" included below.

Operating return on average ordinary shareholders' equity excluding unrealized gains and losses on investments ("Operating ROE ex-UGL")

Operating ROE ex-UGL is an additional measure of our profitability that eliminates the impacts of mark to market fluctuations on our investment portfolio that have not been realized through sales, which we believe provides a consistent measure of our performance. Operating ROE ex-UGL is derived from the non-GAAP operating net income measure by

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dividing non-GAAP operating net income for any period by the average of the opening and closing ordinary shareholders' equity excluding unrealized gains and losses on investments. A reconciliation of the opening and closing ordinary shareholders' equity to the opening and closing ordinary shareholders' equity excluding unrealized gains and losses on investments is provided under "Reconciliation of Non-GAAP Measures" below.
The following table presents our Operating ROE ex-UGL for the indicated years ended December 31:

	2014	2013	2012	Change 2014 to 2013	Change 2013 to 2012
Operating ROE ex-UGL	11.2 %	10.3 %	6.9 %	0.9pts	3.4pts

2014 vs. 2013: The increase in our Operating ROE ex-UGL was the result of the higher operating net income in 2014 due to the factors discussed above as part of Operating ROE.
2013 vs. 2012: The increase in our Operating ROE ex-UGL was the result of the higher operating net income in 2013 due to the factors discussed above as part of ROE.
Book value per ordinary share
We view the change in our book value per ordinary share as an additional measure of our performance, representing the value generated for our ordinary shareholders each period, and we believe that this measure (along with the diluted measures described below) is a key driver of our share price over time. Book value per ordinary share, a non-GAAP financial measure, is calculated by dividing ordinary shareholders' equity (total shareholders' equity less non-controlling interest in equity of consolidated subsidiaries) by the number of outstanding ordinary shares at the applicable period end. Book value per ordinary share is affected primarily by net income (loss), by any changes in the net unrealized gains and losses on our investment portfolio, by currency translation adjustments and by the impact of any share buyback or issuance activity. Ordinary shareholders' equity was $10.0 billion and $10.0 billion and the number of ordinary shares outstanding was 255.2 million and 278.3 million at December 31, 2014 and December 31, 2013, respectively. Ordinary shares outstanding include all ordinary shares legally issued and outstanding (as disclosed on the face of the balance sheets) as well as all director share units outstanding.
The following table presents our book value per ordinary share for the indicated years ended December 31:

(U.S. dollars)	2014	2013	2012	Change 2014 to 2013	Change 2013 to 2012
Book value per ordinary share	$39.31	$35.92	$35.18	$3.39	$0.74

2014 vs. 2013: The increase in our book value per ordinary share was primarily due to increases in net unrealized gains on investments and underwriting income generated by our P&C operations, combined with the benefit of share buyback activity, partially offset by the after-tax net loss on the sale of our life reinsurance subsidiary and payment of dividends. Further detail regarding the impact of the life reinsurance transaction is included at "Significant Items Affecting Results of Operations" below, and at Item 8, Note 3, “Sale of Life Reinsurance Subsidiary,” to the Consolidated Financial Statements included herein.
2013 vs. 2012: The increase in our book value per ordinary share was primarily due to the increase in net income attributable to ordinary shareholders and the benefit of share buyback activity partially offset by a decrease in net unrealized gains on investments.
Fully diluted tangible book value per ordinary share
Fully diluted tangible book value per ordinary share is a non-GAAP financial measure and is calculated by dividing ordinary shareholders' equity excluding intangible assets (as disclosed on the face of the balance sheets) by the number of outstanding ordinary shares at the applicable period end combined with the impact from dilution of share-based compensation and certain conversion features where dilutive.
The following table presents our fully diluted tangible book value per ordinary share for the indicated years ended December 31:

(U.S. dollars)	2014	2013	2012	Change 2014 to 2013	Change 2013 to 2012
Fully diluted tangible book value per ordinary share	$36.79	$33.86	$33.35	$2.93	$0.51

2014 vs. 2013: The increase in our fully diluted tangible book value per ordinary share was a result of the factors noted above as part of book value per ordinary share.

2013 vs. 2012: The increase in our fully diluted tangible book value per ordinary share was a result of the factors noted above as part of book value per ordinary share.

Reconciliation of Non-GAAP Measures

The following is a reconciliation of net income (loss) attributable to ordinary shareholders to operating net income (loss) and also includes the calculation of Operating ROE and Operating ROE ex-UGL for the years ended December 31, 2014, 2013 and 2012:

(U.S. dollars in thousands, except share and per share amounts)	2014	2013	2012
Net income (loss) attributable to ordinary shareholders	$188,340	$1,059,916	$651,128
Net realized and unrealized (gains) losses on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	488,222	—	—
Net realized (gains) losses on investments and net unrealized (gains) losses on investments, Trading - Life Funds Withheld Assets	15,529	—	—
Net investment income - Life Funds Withheld Assets, net of tax	(129,575)	—	—
Foreign exchange revaluation (gains) losses on and other income and expense items related to Life Funds Withheld Assets	(8,489)	—	—
Loss on sale of life reinsurance subsidiary, net of tax	621,323	—	—
Net income (loss) attributable to ordinary shareholders excluding Contribution from Life Retrocession Arrangements (1)	$1,175,350	$1,059,916	$651,128
Net realized (gains) losses on investments sold - excluding Life Funds Withheld Assets, net of tax	(124,759)	(82,605)	(38,234)
Net realized and unrealized (gains) losses on derivatives, net of tax	(29,884)	(7,798)	(5,216)
Net realized and unrealized (gains) losses on investments and derivatives related to the Company's insurance company affiliates, net of tax	(985)	6,556	(301)
Exchange (gains) losses, net of tax	(20,481)	(33,101)	6,719
Operating net income (loss)	$999,241	$942,968	$614,096
Per ordinary share results:			
Net income (loss) attributable to ordinary shareholders	$0.69	$3.63	$2.10
Operating net income (loss)	$3.68	$3.23	$1.98
Weighted average ordinary shares outstanding, in thousands:			
Basic	267,103	287,801	307,372
Diluted - Net income	271,527	292,069	310,282
Diluted - Operating net income	271,527	292,069	310,282
Return on ordinary shareholders' equity:			
Closing ordinary shareholders' equity (at period end)	$10,033,752	$9,997,633	$10,510,078
Unrealized (gain) loss on investments, net of tax	$(1,514,067)	$(733,242)	$(1,469,839)
Average ordinary shareholders' equity for the period excluding unrealized gains and losses on investments	$8,892,038	$9,152,315	$8,965,049
Average ordinary shareholders' equity for the period	$10,015,693	$10,253,856	$9,960,867
Operating net income (loss)	$999,241	$942,968	$614,096
Operating ROE	10.0%	9.2%	6.2%
Operating ROE ex-UGL	11.2%	10.3%	6.8%

(1)

Investment results for the Life Funds Withheld Assets - including interest income, unrealized gains and losses, and gains and losses from sales - are passed directly to the reinsurer pursuant to a contractual arrangement which is accounted for as a derivative. Changes in the fair value of the embedded derivative associated with these Life Retrocession Arrangements are grouped within "Net realized and unrealized (gains) losses on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets" in the reconciliation above.

Significant Items Affecting the Results of Operations

Our net income and other financial measures as shown above for the year ended December 31, 2014 have been affected by, among other things, the following significant items:

1) Sale of life reinsurance subsidiary;
2) The impact of significant large loss events;
3) Continuing competitive factors impacting the underwriting environment;
4) Net favorable prior year loss development; and
5) Market movement impacts on our investment portfolio.

1) Sale of Life Reinsurance Subsidiary

On May 1, 2014, our wholly-owned subsidiary, XLIB, entered into a sale and purchase agreement with GreyCastle providing for the sale of 100% of the common shares of XLIB's wholly-owned subsidiary, XLLR, to GreyCastle for $570 million in cash. This transaction closed on May 30, 2014. As a result of the transaction, we have ceded the majority of our life reinsurance business under the Life Retro Arrangements. This transaction covers a substantial portion of our life reinsurance reserves. We announced the run-off of our life reinsurance business in 2009.

The Run-Off Life Operations were previously reported within the Company’s Life operations segment. Subsequent to the transaction, we no longer consider the Life operations to be a separate operating segment and the results of the Run-Off Life Operations are reported within “Corporate and Other.” See Note 5, "Segment Information," for further information. In addition, the Life Funds Withheld Assets within fixed maturities were reclassified from held to maturity to available for sale in conjunction with this transaction. See Item 8, Note 6, "Investments," to the Consolidated Financial Statements included herein, for further information.

All of the reclassified securities are included within Life Funds Withheld Assets, along with certain other available for sale securities as defined in the sale and purchase agreement. 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 we no longer share in the risks and rewards of the underlying performance of the supporting invested assets, disclosures within the financial statement notes included herein separately report the Life Funds Withheld Assets from the rest of the Company's investments.

At May 30, 2014, gross future policy benefit reserves relating to the Run-Off Life Operations were approximately $5.2 billion. Subsequent to the completion of this transaction, we retained approximately $0.4 billion of these reserves, and recorded a reinsurance recoverable from GCLR of $4.8 billion. Under the terms of the transaction, we continue to own, on a funds withheld basis, assets supporting the Life Retro Arrangements consisting of cash, fixed maturity securities and accrued interest. Based upon the right of offset, the funds withheld liability owing to GCLR is recorded net of future policy benefit reserves recoverable, and is included within “Funds withheld on life retrocession arrangements, net of future policy benefit reserves recoverable" on the consolidated balance sheets. The transaction resulted in an overall after-tax U.S. GAAP net loss of $621.3 million.

At December 31, 2014, gross future policy benefit reserves relating to the Run-Off Life Operations were approximately $4.7 billion, of which the Company retained approximately $0.4 billion, after consideration of its future policy benefit reserves recoverable from GCLR of $4.3 billion. The net funds withheld liability included within “Funds withheld on life retrocession arrangements, net of future policy benefit reserves recoverable" was $1.2 billion. The Company continued to own $5.4 billion of assets supporting the Life Retro Arrangements.

For further information on the Life Retro Arrangements, see "Income Statement Analysis - Impact of Life Retro Arrangements" below and Item 8 Note 14, “Funds Withheld on Life Retrocession Arrangements,” to the Consolidated Financial Statements included herein, for information about the net funds withheld liability.

2) The impact of significant large loss events

Natural Catastrophe Losses

The following table outlines the underwriting losses and loss ratio impact for the Insurance and Reinsurance segments from natural catastrophes for the years ended December 31:

	Natural Catastrophe Underwriting Losses			Natural Catastrophe Loss Ratio Impact		
(U.S. dollars in thousands, except ratios)	2014	2013	2012	2014	2013	2012
Insurance	$68,251	$119,161	$223,147	1.7 %	2.8 %	5.5 %
Reinsurance	45,098	198,202	241,171	2.8 %	11.9 %	13.8 %
Total P&C	$113,349	$317,363	$464,318	2.1 %	5.4 %	8.2 %

Notable natural catastrophes for the years ended December 31, 2014, 2013 and 2012 and the underwriting loss incurred (in parenthetical) for the most significant natural catastrophes, in terms of our losses net of reinsurance recoveries and reinstatement premiums, were as follows:

2014 - included hailstorms in Europe ($28.3 million), Hurricane Odile in Mexico ($14.5 million), India Floods ($9.8 million), Australia Brisbane Superstorm Cells and several United States wind and thunderstorms.

2013 - included flooding in Europe ($55.9 million), Argentina and Canada (Calgary), a cyclone in Australia, tornadoes and hailstorms in the United States, the series of hailstorms in Germany and France in late July 2013 ($75.3 million), Hurricane Ingrid, flooding events in the United States (Colorado) and Canada (Toronto) and Typhoons Fitow and Haiyan.

2012 - included Storm Sandy ($355.3 million) ("Sandy"), U.S. tornadoes and the large earthquake in Italy.

Our loss estimates are based on combinations of our review of individual treaties and policies expected to be impacted, commercial model outputs, client data received to the date the estimates are made, and consideration of expectations of total insured market loss estimates if available, both from published sources and our internal analysis. Our loss estimates involve the exercise of considerable judgment due to the complexity and scale of the insured events, and are, accordingly, subject to revision as additional information becomes available. Actual losses may differ materially from these preliminary estimates.

Other Large Loss Events

In the years ended December 31, 2014, 2013 and 2012, our results from operations were impacted by significant losses from large non-natural catastrophe loss events. In 2014 and 2013, these individually significant losses were largely in the property lines of our Insurance segment. In 2012, large losses related primarily to a single large marine loss during the first quarter of 2012 and losses recorded in relation to the severe drought conditions and crop losses in the U.S. in 2012.

See “Income Statement Analysis” herein for further information regarding these large loss events within each of the Company's operating segments.

3) Continuing competitive factors impacting the underwriting environment

Soft market conditions were experienced across most lines of business throughout 2014, 2013 and 2012. For further information in relation to the underwriting environment, including details relating to rates and retention, see “Executive Overview – Underwriting Environment and Outlook for 2015,” above.

4) Net favorable prior year loss development

Net favorable prior year loss development occurs when there is a decrease to loss reserves recorded at the beginning of the year, resulting from actual or reported loss development for prior years that is less than expected. Net prior year adverse loss development occurs when there is an increase to loss reserves recorded at the beginning of the year, resulting from actual or reported loss development for prior years exceeding expected loss development.

The following table presents the net (favorable) adverse prior year loss development of our loss and loss expense reserves for our property and casualty operations, which include the Insurance and Reinsurance segments for each of the years indicated:

(U.S. dollars in thousands)	2014	2013	2012
Insurance	$(99,762)	$(102,039)	$(140,066)
Reinsurance	(155,314)	(187,850)	(175,828)
Total	$(255,076)	$(289,889)	$(315,894)

See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Item 8, Note 11, “Losses and Loss Expenses,” to the Consolidated Financial Statements included herein, for further information regarding the developments in prior year loss reserve estimates for each of the years indicated within each of our operating segments.

5) Market movement impacts on the Company’s investment portfolio (Excluding Life Funds Withheld Assets)

During the year ended December 31, 2014, the positive mark to market change of $1.0 billion on our AFS investments was driven by the benefit of a $424.9 million unrealized gain when our held to maturity assets were reclassified to available for sale investments, as well as government rate decreases in the U.K. and Europe. This represents an approximately 2.4% appreciation in average assets for the year ended December 31, 2014.

The following table provides further detail regarding the movements in relevant credit markets, as well as in government interest rates using selected market indices:

	Interest Rate Movement for the year ended December 31, 2014 (1) (‘+’/‘-’ represents increases / decreases in interest rates)	Credit Spread Movement for the year ended December 31, 2014 (2) (‘+’/‘-’ represents widening / tightening of credit spreads)
United States	-9 basis points (5 year Treasury)	+8 basis points (US Corporate A rated)
		-16 basis points (US Mortgage Master Index)
		-3 basis points (US CMBS, AAA rated)
United Kingdom	-127 basis points (10 year Gilt)	+28 basis points (UK Corporate, AA rated)
Euro-zone	-90 basis points (5 year Bund)	-21 basis points (Europe Corporate, A rated)

(1) Source: Bloomberg Finance L.P.
(2) Source: Merrill Lynch Global Indices.

Net realized gains on investments in the year ended December 31, 2014 totaled $123.0 million, including net realized losses of approximately $35.7 million related to other-than-temporary impairment ("OTTI") charges on certain of our fixed income investments. For further analysis of this, see “Income Statement Analysis” below.

Other Key Focuses of Management

Details of our significant other key focuses of management are outlined below.

Catlin Acquisition

As discussed above, on January 9, 2015, we announced that XL-Ireland had entered into the Implementation Agreement with Catlin and Green Holdings, a direct, wholly-owned subsidiary of XL-Ireland pursuant to which we will acquire the entire issued and to be issued share capital of Catlin for cash and newly-issued ordinary shares of XL-Ireland.

The strategic rationale for the Acquisition is as follows:

- Enhances scale and product offering within core competencies
- Establishes a premier specialty insurance platform
- Captures a scale advantage in a consolidating reinsurance market
- Creates a more capable and efficient global network
- Creates an attractive opportunity to realize expense synergies

Management is highly focused on achieving the successful integration of Catlin.

Capital Management

Fundamental to supporting our business model is our ability to underwrite business, which is largely dependent upon the quality of our claims paying and financial strength ratings as evaluated by independent rating agencies. As a result, in the event that we are downgraded, our ability to write business, as well as our financial condition and/or results of operations, could be adversely affected.

Buybacks of Ordinary Shares

On February 27, 2012, we announced that the XL-Ireland Board approved a share buyback program, authorizing the purchase of up to $750 million of our ordinary shares (the “February 2012 Program”). During 2012, we purchased and canceled 18.3 million ordinary shares under the February 2012 Program for $401.6 million. Between January 1 and February 22, 2013, we purchased and canceled 3.8 million ordinary shares under the February 2012 Program for $98.3 million.

On February 22, 2013, we announced that the XL-Ireland Board approved a new share buyback program, authorizing the purchase of up to $850 million of our ordinary shares (the “Share Buyback Program”). At December 31, 2013, $275.0 million remained available for purchase under the Share Buyback Program.

On February 21, 2014, we announced that the XL-Ireland Board of Directors approved an increase to the Share Buyback Program, authorizing the purchase of up to $1.0 billion of our ordinary shares. This authorization includes the approximately $200.0 million that remained under the Share Buyback Program prior to the increase.

During the year ended December 31, 2014, the Company purchased and canceled 24.7 million shares for $800.0 million at an average price of $32.40 per share. At December 31, 2014, $267.6 million remained available for purchase under the Share Buyback Program.

While we continue to see share buybacks as a valuable capital management tool, we recently announced a pause to our active purchases pending the conclusion of our recently announced Catlin acquisition. Near term additional capital management activities will be focused on supporting the proposed acquisition and have been disclosed as a part of the offer announcement.

All share buybacks were carried out by way of redemption in accordance with Irish law and the Company's constitutional documents. All shares so redeemed were canceled upon redemption.

Repayment of the 5.25% Senior Notes due September 2014

On September 15, 2014, the $600 million principal amount outstanding on the 5.25% Senior Notes issued by XLIT Ltd. was repaid at maturity. For further detail, see Item 8, Note 15, "Notes Payable and Debt and Financing Arrangements," to the Consolidated Financial Statements included herein.

Sale of 2.30% Senior Notes due 2018 and Sale of 5.25% Senior Notes due 2043
On November 21, 2013, XL-Cayman completed the public sale of $300 million aggregate principal amount of 2.30% Senior Notes due 2018 (the "2.30% Senior Notes") and the sale of $300 million aggregate principal amount of 5.25% Senior Notes due 2043 (the "5.25% Senior Notes," and, together with the 2.30% Senior Notes, the “Senior Notes”) at the issue price of 99.69% and 99.770% of the principal amount, respectively. The Senior Notes are fully and unconditionally guaranteed by XL-Ireland. The 2.30% Senior Notes bear interest at a rate of 2.30%, payable semi-annually, beginning on June 15, 2014, and mature on December 15, 2018. The 5.25% Senior Notes bear interest at a rate of 5.25%, per annum, payable semi-annually, beginning on June 15, 2014, and mature on December 15, 2043. XL-Cayman may redeem the Senior Notes, in whole or part, from time to time in accordance with the terms of the indenture pursuant to which the Senior Notes were issued. XL-Cayman received aggregate net proceeds of approximately $592.6 million from the offering, which was used for the repayment at maturity of the outstanding $600 million principal amount of our 5.25% Senior Notes due September 2014.
Repayment of the 6.5% Guaranteed Senior Notes due January 2012 (the “XLCFE Notes”)
On January 15, 2012, the $600 million principal amount outstanding on the XLCFE Notes, which were issued by XL Capital Finance (Europe) plc, was repaid at maturity. For further detail, see Item 8, Note 15, “Notes Payable and Debt Financing Arrangements,” to the Consolidated Financial Statements included herein.
Capital Management - Catlin Acquisition
In connection with the proposed acquisition of Catlin, we have proposed capital management activity in support of the transaction. XL-Cayman, as borrower, XL-Ireland, X.L. America, Inc., XLIB, XL Re Ltd, and XL Life Ltd, as guarantors, Morgan Stanley Senior Funding, Inc., as administrative agent, and the lenders party thereto entered into a senior unsecured 364-Day Bridge Loan Agreement providing for a £1.6 billion Bridge Facility. The proceeds of the Bridge Facility may be used to finance the payment of the cash consideration in connection with the Acquisition and to pay fees and expenses related thereto. For further information on this activity, see the Company's Report on Form 8-K filed with the SEC on January 9, 2015 under Items 1.01, 2.03, 8.01 and 9.01.
Risk Management
Our risk management and risk appetite framework is detailed in Item 1, “Business – Enterprise Risk Management,” included herein. The table below shows our estimated per event net 1% and 0.4% exceedance probability exposures for certain peak natural catastrophe peril regions. These estimates assume that amounts due from reinsurance and retrocession purchases are 100% collectible. There may be credit or other disputes associated with these potential receivables.

			1% Exceedance Probability			0.4% Exceedance Probability		
Geographical Zone (U.S. dollars in millions)	Peril	Measurement Date of In-Force Exposures (1)	Probable Maximum Loss (2)	Percentage of Adjusted Tangible Shareholders’ Equity at December 31, 2014		Probable Maximum Loss (2)	Percentage of Adjusted Tangible Shareholders’ Equity at December 31, 2014	
North Atlantic	Windstorm	October 1, 2014	$1,242	12.5	%	$1,664	16.7	%
North America	Earthquake	October 1, 2014	$705	7.1	%	$1,285	12.9	%
Europe	Windstorm	October 1, 2014	$523	5.3	%	$736	7.4	%
Japan	Earthquake	October 1, 2014	$220	2.2	%	$286	2.9	%
Japan	Windstorm	October 1, 2014	$140	1.4	%	$199	2.0	%

(1) Detailed analyses of aggregated in-force exposures and maximum loss levels are done periodically. The measurement dates represent the date of the last completed detailed analysis by geographical zone

(2) Probable maximum losses, which include secondary uncertainty that incorporates variability around the expected probable maximum loss for each event, do not represent our maximum potential exposures and are pre-tax.

See “Significant Items Affecting the Results of Operations – 2) The impact of significant large loss events” above.

Regulatory Change

As part of our operational efficiency, management continues to actively monitor and assess the various regulatory initiatives and legislation that impact us or in the future could impact us. For example, management has been focused on Solvency II, which was adopted by the European Parliament in April 2009. This is an E.U. directive covering the capital adequacy and risk management of, and regulatory reporting for, European-based (re)insurers, as well as a new supervisory regime for the insurance industry. The Omnibus II directive was agreed to by the European Commission, the European

Parliament and the Council of Ministers setting a Solvency II implementation date of January 1, 2016. The CBI has issued interim guidelines on applying EIOPA reporting guidelines for authorized firms to ensure their eventual readiness for Solvency II, while the PRA has issued proposed rules transposing Solvency II requirements in to U.K, legislation. Management continues to prepare for the implementation of Solvency II. See Item 1, “Business - Regulation.”

Critical Accounting Policies and Estimates

The following are considered to be our critical accounting policies and estimates due to the judgments and uncertainties affecting the application of these policies and/or the likelihood that materially different amounts would be reported under different conditions or using different assumptions. If actual events differ significantly from the underlying assumptions or estimates applied for any or all of the accounting policies (either individually or in the aggregate), there could be a material adverse effect on our results of operations, financial condition and liquidity. We have discussed these critical accounting policies with the Audit Committee of the XL-Ireland Board.

Other significant accounting policies are nevertheless important to an understanding of our Consolidated Financial Statements. Policies such as those related to revenue recognition, financial instruments and consolidation require difficult judgments on complex matters that are often subject to multiple sources of authoritative guidance. See Item 8, Note 2, “Significant Accounting Policies,” to the Consolidated Financial Statements included herein for further information.

1) Unpaid Loss and Loss Expenses and Unpaid Loss and Loss Expenses Recoverable

As we earn premiums for the underwriting risks we assume, we also establish an estimate of the expected ultimate losses related to the premium. Loss reserves for unpaid loss and loss expenses are established due to the significant periods of time that may elapse between the occurrence, reporting and settlement of a loss. The process of establishing reserves for unpaid property and casualty claims can be complex and is subject to considerable variability, as it requires the use of informed estimates and judgments. These estimates and judgments are based on numerous factors, and may be revised as additional experience and other data become available and are reviewed, as new or improved methodologies are developed or as current laws change. Loss reserves include:

a) Case reserves - reserves for reported losses and loss expenses that have not yet been settled; and

b) IBNR reserves – reserves for incurred but not reported losses or for reported losses over and above the amount of case reserves.

Case Reserves

Case reserves for our property and casualty operations are established by management based on amounts reported from insureds or ceding companies and consultation with legal counsel, and represent the estimated ultimate cost of events or conditions that have been reported to or specifically identified by us. The method of establishing case reserves for reported claims differs among our operations.

With respect to our insurance operations, we are notified of insured losses and record a case reserve for the estimated amount of the settlement, if any. The estimate reflects the judgment of claims personnel based on general reserving practices, the experience and knowledge of such personnel regarding the nature of the specific claim and, where appropriate, advice of legal counsel. Reserves are also established to provide for the estimated expense of settling claims, including legal and other fees and the general expenses of administering the claims adjustment process. With respect to our reinsurance operations, case reserves for reported claims are generally established based on reports received from ceding companies. Additional case reserves may be established by us to reflect the estimated ultimate cost of a loss. The uncertainty in the reserving process for reinsurers is due, in part, to the time lags inherent in reporting from the original claimant to the primary insurer to the reinsurer. As a predominantly broker market reinsurer for both excess-of-loss and proportional contracts, we are subject to a potential additional time lag in the receipt of information as the primary insurer reports to the broker who in turn reports to us.

Since we rely on information regarding paid losses, case reserves and IBNR provided by ceding companies in order to assist us in estimating our liability for unpaid losses and loss adjustment expenses ("LAE"), we maintain certain procedures in order to help determine the completeness and accuracy of such information. Periodically, management assesses the reporting activities of our ceding companies on the basis of qualitative and quantitative criteria. In

addition to conferring with ceding companies or brokers on claims matters, our claims personnel conduct periodic audits of specific claims and the overall claims procedures of our ceding companies at their offices. We rely on our ability to effectively monitor the claims handling and claims reserving practices of ceding companies in order to help establish the proper reinsurance premium for reinsurance agreements and to establish proper loss reserves. Disputes with ceding companies have been rare and generally have been resolved through negotiation.

In addition to information received from ceding companies on reported claims, we also utilize information on the pattern of ceding company loss reporting and loss settlements from previous catastrophic events in order to estimate our ultimate liability related to catastrophic events such as hurricanes. Commercial catastrophe model analyses and zonal aggregate exposures are utilized to assess potential client loss before and after an event. Initial cedant loss reports are generally obtained shortly after a catastrophic event, with subsequent updates received as new information becomes available. We actively request loss updates from cedants periodically while there is still considerable uncertainty for an event, often for the first year following an event. Our claim settlement processes also incorporate an update to the total loss reserve at the time a claim payment is made to a ceding company.

While the reliance on loss reports from ceding companies may increase the level of uncertainty associated with the estimation of total loss reserves for property catastrophe reinsurance relative to direct property insurance, there are several factors which serve to reduce the uncertainty in loss reserve estimates for property catastrophe reinsurance. First, for large natural catastrophe events, aggregate limits in property catastrophe reinsurance contracts are generally fully exhausted by the loss reserve estimates. Second, as a reinsurer, we have access to information from a broad cross section of the insurance industry. We utilize such information in order to perform consistency checks on the data provided by ceding companies and are able to identify trends in loss reporting and settlement activity and incorporate such information in our estimate of IBNR reserves. Finally, we also supplement the loss information received from cedants with loss estimates developed by market share techniques and/or from third party catastrophe models applied to exposure data supplied by cedants.

IBNR Reserves

IBNR reserves represent management’s best estimate, at a given point in time, of the amount in excess of case reserves that is needed for the future settlement and loss adjustment costs associated with claims incurred. It is possible that the ultimate liability may differ materially from these estimates. Because the ultimate amount of unpaid losses and LAE is uncertain, we believe that quantitative techniques to estimate these amounts are enhanced by professional and managerial judgment. Management reviews the IBNR estimates produced by our actuaries and determines its best estimate of the liabilities to record in our financial statements. We consider this single point estimate to be the mean expected outcome.

IBNR reserves are estimated by our actuaries using several standard actuarial methodologies including the loss ratio method, the loss development or chain ladder method, the Bornhuetter-Ferguson (“BF”) method and frequency and severity approaches. IBNR related to a specific event may be based on our estimated exposure to an industry loss and may include the use of catastrophe modeling software. On a quarterly basis, IBNR reserves are reviewed by our actuaries, and are adjusted as new information becomes available. Any such adjustments are accounted for as changes in estimates and are reflected in the results of operations in the period in which they are made.

Our actuaries use one set of assumptions in calculating the single point estimate, which includes actual loss data, loss development factors, loss ratios, reported claim frequency and severity. The actuarial reviews and documentation are completed in accordance with professional actuarial standards with reserves established on a basis consistent with GAAP. The selected assumptions reflect the actuary’s judgment based on historical data and experience combined with information concerning current underwriting, economic, judicial, regulatory and other influences on ultimate claim settlements.

When estimating IBNR reserves, each of our insurance and reinsurance business units segregate business into exposure classes. Within each class, the business is further segregated by either the year in which the contract incepted (“underwriting year”), the year in which the claim occurred (“accident year”), or the year in which the claim is reported (“report year”). The majority of the Insurance segment is reviewed on an accident year basis. Professional lines insurance business is mostly reviewed on a report year basis due to the claims made nature of the underlying policies. London Market insurance business is reviewed on an underwriting year basis as per Lloyd’s market practice. The Reinsurance segment is reviewed on an underwriting year basis. In each case, we believe the selected method most accurately represents the economic condition of the business.

Generally, initial actuarial estimates of IBNR reserves not related to a specific event are based on the loss ratio method applied to each class of business. Actual paid losses and case reserves (“reported losses”) are subtracted from expected ultimate losses to determine IBNR reserves. Estimates of the initial expected ultimate losses involve

management judgment and are based on historical information for that class of business, which includes loss ratios, market conditions, changes in pricing and conditions, underwriting changes, changes in claims emergence, and other factors that may influence expected ultimate losses.

Over time, as a greater number of claims are reported, actuarial estimates of IBNR are based on the BF method and loss development techniques. The BF method utilizes actual loss data and the expected patterns of loss emergence, combined with an initial expectation of ultimate losses to determine an estimate of ultimate losses. This method may be appropriate when there is limited actual loss data and a relatively less stable pattern of loss emergence. The chain ladder method utilizes actual loss and expected patterns of loss emergence to determine an estimate of ultimate losses that is independent of the initial expectation of ultimate losses. This method may be appropriate when there is a relatively stable pattern of loss emergence and a relatively

larger number of reported claims. Multiple estimates of ultimate losses using a variety of actuarial methods are calculated for each of our classes of business for each year of loss experience. Our actuaries look at each class and determine the most appropriate point estimate based on the characteristics of the particular class and other relevant factors, such as historical ultimate loss ratios, the presence of individual large losses, and known occurrences that have not yet resulted in reported losses. Once our actuaries make their determination of the most appropriate point estimate for each class, this information is aggregated and presented to management for review and approval.

The pattern of loss emergence is determined using actuarial analysis and judgment and is based on the historical patterns of the recording of paid and reported losses by us, as well as industry information. Information that may cause historical patterns to differ from future patterns is considered and reflected in expected patterns as appropriate. For property, marine and aviation insurance, losses are generally reported within 2 to 3 years from the beginning of the accident year. For casualty insurance, loss emergence patterns can vary from 3 years to over 20 years depending on the type of business. For other insurance, loss emergence patterns fall between property and casualty insurance. For reinsurance business, loss reporting lags the corresponding insurance classes often by at least one quarter due to the need for loss information to flow from the ceding companies to us generally via reinsurance intermediaries. Such lags in loss reporting are reflected in the actuary's selections of loss reporting patterns used in establishing our reserves.

Such estimates are not precise because, among other things, they are based on predictions of future developments and estimates of future trends in claim severity, claim frequency and other issues. In the process of estimating IBNR reserves, provisions for economic inflation and changes in the social and legal environment are considered, but involve considerable judgment. When estimating IBNR reserves, more judgment is typically required for lines of business with longer loss emergence patterns.

Due to the low frequency and high severity nature of some of the business underwritten by us, our reserve estimates are highly dependent on actuarial and management judgment and are therefore uncertain. In property classes, there can be additional uncertainty in loss estimation related to large catastrophe events. With wind events, such as hurricanes, the damage assessment process may take more than a year. The cost of claims is subject to volatility due to supply shortages for construction materials and labor. In the case of earthquakes, the damage assessment process may take several years as buildings are discovered to have structural weaknesses not initially detected. The uncertainty inherent in IBNR reserve estimates is particularly pronounced for casualty coverages, such as excess liability, professional liability coverages and workers' compensation, where information emerges relatively slowly over time.

Our three types of property and casualty reserve exposure with the longest tails are:

a) high layer excess casualty insurance;

b) casualty reinsurance; and

c) discontinued asbestos and run-off environmental insurance and reinsurance liabilities.

Certain aspects of our casualty operations complicate the actuarial process for establishing reserves. Certain casualty business written by our insurance operations is high layer excess casualty business, meaning that our liability attaches after large deductibles, including self insurance or insurance from sources other than us. We commenced writing this type of business in 1986 and issued policies in forms that were different from traditional policies used by the industry at that time. Initially, there was a lack of industry data available for this type of business. Consequently, the basis for establishing loss reserves by us for this type of business was largely judgmental and based upon our own reported loss experience, which was used as a basis for determining ultimate losses and, therefore, IBNR reserves. Over time, the amount of available historical loss experience data has increased. As a result, we have obtained a larger statistical base to assist in establishing reserves for these excess casualty insurance claims.

High layer excess casualty insurance claims typically involve claims relating to (i) a "shock loss" such as an explosion or transportation accident causing severe damage to persons and/or property over a short period of time, (ii) a "non-shock" loss where a large number of claimants are exposed to injurious conditions over a longer period of time, such as exposure to chemicals or pharmaceuticals or (iii) a professional liability loss such as a medical malpractice claim. In each case, these claims are ultimately settled following extensive negotiations and legal proceedings. This process typically takes 5 to 15 years following the date of loss.

Reinsurance operations by their nature add further complications to the reserving process, particularly for the casualty business written, in that there is an inherent lag in the timing and reporting of a loss event from an insured or ceding

company to the reinsurer. This reporting lag creates an even longer period of time between the policy inception and when a claim is finally settled. As a result, more judgment is required to establish reserves for ultimate claims in our reinsurance operations.

In our reinsurance operations, case reserves for reported claims are generally established based on reports received from ceding companies. Additional case reserves may be established by us to reflect our estimated ultimate cost of a loss.
Casualty reinsurance business involves reserving methods that generally include historical aggregated claim information as reported by ceding companies, combined with the results of claims and underwriting reviews of a sample of the ceding company's claims and underwriting files. Therefore, we do not always receive detailed claim information for this line of business.
Discontinued asbestos and run-off environmental liabilities are attached to certain policies previously written by NAC Re Corp. (now known as XL Reinsurance America Inc.), prior to its acquisition by us; from business of Winterthur purchased by us from AXA Insurance in 2001; and from a loss portfolio transfer in 2006. At December 31, 2014, total gross unpaid losses and loss expenses in respect of this business represented less than 1% of unpaid losses and loss expenses of the Company. See Note 11(c), "Losses and Loss Expenses – Discontinued Asbestos and Run-Off Environmental Related Claims," to the Consolidated Financial Statements included herein for further information.
Except for certain workers' compensation (including long term disability) liabilities and certain bodily injury liability claims emanating from U.K. exposures, predominantly from the U.K. motor liability portfolio, we do not discount our unpaid losses and loss expenses. We utilize tabular reserving for workers' compensation unpaid losses that are considered fixed and determinable. The unpaid losses for the annuity component of U.K. motor claims are discounted to reflect the long tail nature of the structured settlements. For further discussion, see Item 8, Note 11, "Losses and Loss Expenses," to the Consolidated Financial Statements included herein.
Loss and loss expenses are charged to income as they are incurred. These charges include loss and loss expense payments and any changes in case and IBNR reserves. During the loss settlement period, additional facts regarding claims are reported. As these additional facts are reported, it may be necessary to increase or decrease the unpaid losses and loss expense reserves. The actual final liability may be significantly different than prior estimates.
The amount of our net unpaid losses and loss expenses relating to our operating segments at December 31, 2014 and 2013 was as follows.

(U.S. dollars in thousands)	2014	2013
Insurance	$10,967,738	$11,512,569
Reinsurance	4,973,977	5,553,761
Net unpaid losses and loss expenses	$15,941,715	$17,066,330

(U.S. dollars in thousands)	Net Unpaid Losses and Loss Expenses					
	2014			2013		
	Case Reserves	IBNR Reserves	Total Reserves	Case Reserves	IBNR Reserves	Total Reserves
Insurance:						
Professional	$1,415,510	$2,800,020	$4,215,530	$1,364,963	$3,102,974	$4,467,937
Casualty	1,412,787	3,213,599	4,626,386	1,499,584	3,128,620	4,628,204
Property	382,375	126,264	508,639	416,038	200,083	616,121
Specialty	620,704	395,449	1,016,153	617,794	501,889	1,119,683
Other (1)	193,088	407,942	601,030	216,033	464,591	680,624
Total	$4,024,464	$6,943,274	$10,967,738	$4,114,412	$7,398,157	$11,512,569
Reinsurance:						
Casualty (2)	$1,322,739	$1,853,339	$3,176,078	$1,514,621	$1,915,734	$3,430,355
Property catastrophe (3)	194,185	177,037	371,222	276,004	187,743	463,747
Other property	334,836	385,432	720,268	415,238	415,175	830,413
Marine, energy, aviation and satellite	344,301	43,564	387,865	406,248	47,834	454,082
Other (1)	124,744	193,800	318,544	161,166	213,998	375,164
Total	$2,320,805	$2,653,172	$4,973,977	$2,773,277	$2,780,484	$5,553,761
TOTAL	$6,345,269	$9,596,446	$15,941,715	$6,887,689	$10,178,641	$17,066,330

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

(2) Within the Reinsurance segment, casualty-other and casualty-professional lines of business are shown in the aggregate.

(3) Property catastrophe IBNR includes event specific reserves for losses that our insureds and cedants have informed us they expect to incur but have not yet had reported known claims.

As noted above, management reviews the IBNR estimates produced by our actuaries and determines its best estimate of the liabilities to record in our financial statements. We consider this single point estimate to be the mean expected outcome. Management believes that the actuarial methods utilized adequately provide for loss development.
While the proportion of unpaid losses and loss expenses represented by IBNR is sensitive to a number of factors, the most significant ones have historically been accelerated business growth and changes in business mix. Other factors that have affected the ratio in the past include additions to prior period reserves, catastrophic occurrences, settlement of large claims and changes in claims settlement patterns. The ratio of IBNR to total reserves was consistent from year-end 2013 to year-end 2014.
IBNR reserves are estimated by our actuaries using standard actuarial methodologies as discussed above. Since the year ended December 31, 2003, we adopted a methodology that provides a single point reserve estimate separately for each line of business and also a range of possible outcomes across each single point reserve estimate. This is discussed further below.
The following table shows the recorded estimate and the high and low ends of the range of our net unpaid losses and loss expenses for each of the lines of business noted above at December 31, 2014:

(U.S. dollars in thousands)	Net Unpaid Losses and Loss Expenses Recorded	Range of Net Unpaid Losses & Loss Expenses Estimated HIGH (4)	Range of Net Unpaid Losses & Loss Expenses Estimated LOW (4)
Insurance			
Professional	$4,215,530	$4,567,063	$3,875,107
Casualty	4,626,386	$5,059,177	$4,208,870
Property	508,639	$564,370	$455,194
Specialty	1,016,153	$1,103,147	$931,976
Other (1)	601,030	$711,048	$498,360
Total (2)	$10,967,738	$11,730,450	$10,225,225
Reinsurance			
Casualty (3)	$3,176,078	$3,399,824	$2,958,319
Property catastrophe	371,222	$419,071	$325,675
Other property	720,268	$902,852	$554,140
Marine, energy, aviation and satellite	387,865	$441,159	$337,290
Other (1)	318,544	$354,357	$284,244
Total (2)	$4,973,977	$5,347,279	$4,611,320
Total	$15,941,715		

(1) Other within the Insurance segment includes: excess and surplus, surety, programs, structured indemnity and certain discontinued lines. Other within the Reinsurance segment includes: whole account contracts, surety, structured indemnity and other lines.
(2) The range for the total Insurance and Reinsurance segment reserves is narrower than the sum of the ranges for the lines of business shown in the table due to diversification benefits across the lines of business.
(3) Within the Reinsurance segment, casualty-other and casualty-professional lines of business are shown in the aggregate.
(4) The method of converting reserve ranges from an ultimate to a one-year time horizon has changed for 2014. The new method is based on expectations of future claims reporting and settlement, rather than the average time of payment for outstanding reserves.

There are factors that would cause reserves to increase or decrease within the context of the range provided. The magnitude of any change in ultimate losses would be determined by the magnitude of any changes to our assumptions or combined impact of changes in assumptions. Factors that would increase reserves include, but are not limited to, increases in claim severity, increases in expected level of reported claims, changes to the regulatory environment that

expand the exposure insured by us, changes in the litigation environment that increase claim awards, filings or verdicts, unexpected increases in loss inflation, and/or new types of claims being pursued against us. Factors that would decrease reserves include, but are not limited to, decreases in claim severity, reductions in the expected level of reported claims, changes to the regulatory environment that reduce the exposure insured by us, changes in the litigation environment that decrease claim awards, filings or verdicts, and/or unexpected decreases in loss inflation.
Our methodology in 2014 for calculating reserve ranges around our single point reserve estimate is consistent with that used in 2013. We modeled a statistical distribution of potential reserve outcomes over a one year run-off period for each of the approximately 32 lines of business. Where appropriate, lines of business were evaluated at a more granular level and then aggregated to appropriately reflect differing levels of volatility within each line of business, for example, in respect of attritional, large, catastrophe and clash losses. In doing so we evaluated a number of alternative models, and for each line of business our actuaries selected the distribution parameters deemed to be most appropriate. Factors affecting this decision included an assessment of the model fit, availability and relevance of data and the impact of changes in business mix. We used the modeled statistical distribution to calculate an 80% prediction interval for the potential reserve outcomes over this one year

run-off period. The high and low end points of the ranges set forth in the above table are such that there is a 10% modeled probability that the reserve will develop higher than the high point and a 10% modeled probability that the reserve will develop lower than the low point.

The development of a reserve range models the uncertainty of the claim environment as well as the limited predictive power of past loss data. These uncertainties and limitations are not specific to us. The ranges represent an estimate of the range of possible outcomes over a one year development period. A range of possible outcomes should not be confused with a range of best estimates. The range of best estimates will generally be much narrower than the range of possible outcomes as it will reflect reasonable actuarial best estimates of the expected reserve.

Reserve volatility was analyzed for each line of business within both the Reinsurance and Insurance segments using our historical data, supplemented by industry data. These ranges were then aggregated to the lines of business shown above taking into account correlation between lines of business. The practical result of the correlation approach to aggregation is that the ranges by line of business disclosed above are narrower than the sum of the ranges of the individual lines of business. Similarly, the range for our total reserves in the aggregate is narrower than the sum of the ranges for the lines of business disclosed above.

On an annual basis, we review the correlation assumptions between our various lines of business. Since 2006, we have utilized a simplified approach of assigning ratings of low, medium or high to our correlation assumptions for each line of business pairing based on the judgment of the reserving actuaries. This simplified approach has been utilized due to the limited amount of historical experience within our portfolio as well as limited applicable industry data. However, our actual historical experience and industry data were used to judgmentally select a range of values for the low, medium and high correlations, respectively, of 15%, 30% and 50%. It should be noted that both our own experience and the industry data exhibit negative correlations in reserve developments between certain lines of business. However, as a measure of prudence in evaluating the reserve ranges, we have used a minimum of 15% correlation between any two lines of business. The analysis of correlations and the reflection of potential diversification benefits across lines of business represent another area of uncertainty in the development of estimated reserve ranges.

We are not aware of any generally accepted model to perform the reserve range analysis described above. As such, other models may be employed to develop these ranges.

See “Segments” below for further discussion on prior year development of loss reserves.

Unpaid losses and loss expenses recoverable

The recognition of unpaid losses and loss expenses recoverable requires two key judgments. The first judgment involves our estimation of the amount of gross IBNR to be ceded to reinsurers. Ceded IBNR is generally developed as part of our loss reserving process and, consequently, its estimation is subject to similar risks and uncertainties as the estimation of gross IBNR (see “Critical Accounting Policies and Estimates – Unpaid losses and loss expenses and unpaid loss and loss expense recoverable”). The second judgment involves our estimate of the amount of the reinsurance recoverable balance that we will ultimately be unable to recover from related reinsurers due to insolvency, contractual dispute, or for other reasons. Amounts estimated to be uncollectible are reflected in a bad debt provision that reduces the reinsurance recoverable balance. Changes in the bad debt provision are reflected in net income. See Item 8, Note 10, “Reinsurance,” to the Consolidated Financial Statements included herein, for further information.

We use a default analysis to estimate uncollectible reinsurance. The primary components of the default analysis are reinsurance recoverable balances by reinsurer, net of collateral, estimated recovery rates and default factors used to determine the portion of a reinsurer’s balance deemed uncollectible. The definition of collateral for this purpose requires some judgment and is generally limited to assets held in trust, letters of credit, and liabilities held by us with the same legal entity for which we believe there is a right of offset. Default factors require considerable judgment and are determined using the current rating, or rating equivalent, of each reinsurer as well as other key considerations and assumptions.

2) Future Policy Benefit Reserves

Future policy benefit reserves relate to our Run-Off Life Operations and are estimated using assumptions for investment yields, mortality, expenses and provisions for adverse loss deviation. Uncertainties related to interest rate volatility and mortality experience make it difficult to project and value the ultimate benefit payments.

As stated above (see “Executive overview - Sale of Life Reinsurance Subsidiary”), on May 30, 2014, XLIB closed a sale and purchase agreement with GreyCastle providing for the sale of 100% of the common shares of its life reinsurance subsidiary, XLLR. As a result, we have ceded the majority of our life reinsurance business to GCLR through the Life Retro Arrangements. This transaction covers a substantial portion of our life reinsurance reserves and as a result the following future policy benefit reserves discussion relates only to the net reserves we have retained. At December 31, 2014, gross future policy benefit reserves relating to our Run-Off Life Operations were approximately $4.7 billion, of which we retained approximately

79

$0.4 billion, after consideration of our future policy benefit reserves recoverable from GCLR of $4.3 billion. See Item 8, Note 3, "Sale of Life Reinsurance Subsidiary," to the Consolidated Financial Statements included herein, for further information.
We provide reinsurance of disability income protection, for an in-force block of business. The future policy benefit reserves for these contracts amounted to approximately $108 million and $104 million at December 31, 2014 and 2013, respectively. Future policy benefit reserves include the lock-in of assumptions at inception with periodic review against experience. The liabilities relate to in-force blocks of business, comprising underlying insurance policies that provide an income if the policyholder becomes sick or disabled. The liabilities are therefore driven mainly by the rates at which policyholders become sick (where sickness is defined by the policy conditions) and by the rates at which these policyholders recover or die. A 1% increase in the incidence rate would increase the value of future claims by approximately $1.2 million, while a 1% decrease in the termination rate would increase the value of future claims by approximately $1.4 million. Although reserve assumptions related to this business have been unlocked in the past, no changes to the revised locked-in assumptions were made in the years ended 2014, 2013, and 2012.
We also provide reinsurance of a block of U.S. based term assurance, which was novated to us from an insurance affiliate in December 2002. The future policy benefit reserves for these contracts amounted to approximately $263 million and $268 million at December 31, 2014 and 2013, respectively. Future policy benefit reserves are established in accordance with the provisions of general authoritative guidance on accounting for insurance enterprises, including the lock-in of assumptions at inception with periodic review against experience.
The liabilities relate to in-force blocks of business, which are comprised of underlying insurance policies that provide mainly lump sum benefits if the policyholder dies. The liabilities are therefore driven by the rates of mortality, and a 1% increase in the mortality rate relative to the reserving assumption would increase the value of future claims by approximately $6.8 million. The liabilities are also affected by lapse experience, and a 1% decrease in lapse rates relative to the reserving assumption would increase the reserve by approximately $1.1 million. No changes were made to the locked-in assumptions in 2014. Following a review of mortality and lapse experience in 2013, the revised locked-in assumptions were unlocked and revised, resulting in an increase in the reserve of $14.0 million.
For further information see Item 8, Note 13, “Future Policy Benefit Reserves,” to the Consolidated Financial Statements included herein.
3) Other-Than-Temporary Declines in Investments (“OTTI”)
Our process for identifying declines in the fair value of investments that are other-than-temporary involves consideration of several factors. The primary factors include (i) an analysis of the liquidity, business prospects and financial condition of the issuer including consideration of credit ratings, (ii) the significance of the decline, (iii) an analysis of the collateral structure and other credit support, as applicable, of the securities in question, and (iv) for debt securities, whether we intend to sell such securities. In addition, the authoritative guidance requires that OTTI for certain asset backed and mortgage backed securities are recognized if the fair value of the security is less than its discounted cash flow value and there has been a decrease in the present value of the expected cash flows since the last reporting period. Where our analysis of the above factors results in our conclusion that declines in fair values are other-than-temporary, the cost of the security is written down to discounted cash flow and a portion of the previously unrealized loss is therefore realized in the period such determination is made.
If we intend to sell an impaired debt security, or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis, the impairment is other-than-temporary and is recognized in earnings in an amount equal to the entire difference between fair value and amortized cost.
There are risks and uncertainties associated with determining whether declines in the fair value of investments are other-than-temporary. These include subsequent changes in general economic conditions as well as specific business conditions affecting particular issuers, our liability profile, subjective assessment of issue-specific factors (seniority of claims, collateral value, etc.), future financial market effects, stability of foreign governments and economies, future rating agency actions and significant disclosure of accounting, fraud or corporate governance issues that may adversely affect certain investments. In addition, significant assumptions and management judgment are involved in determining if the decline is other-than-temporary. If management determines that a decline in fair value is temporary, then a security’s value is not written down at that time. However, there are potential effects upon our future earnings

and financial position should management later conclude that some of the current declines in the fair value of the investments are other-than-temporary declines. See “Investment Activities” herein for further information on other-than-temporary declines in the value of investments and unrealized loss on investments.

Key Assumptions used in determination of credit losses related to fixed maturities and equities

We review, on a quarterly basis, the entirety of the fixed maturity securities in our investment portfolio that are in a gross unrealized loss position to assess whether we believe a credit loss, relative to the current amortized cost of the security, exists.

We utilize specific screening criteria to identify securities at risk for a credit loss, and if any of these conditions exists, subject the individual security to a detailed review to determine if a credit loss exists. The screening criteria used by us include the absolute degree of impairment of the security as a percentage of amortized cost, the credit rating of the security and the market yield-to-maturity of the security. Any securities that have previously been identified as impaired due to credit losses are at elevated risk of further impairments. In addition, on a quarterly basis, we review any current market developments and identify any new issues that may adversely impact our investment portfolio, and review any impacted holdings and any pending sales programs.

Credit loss methodology – structured securities

Credit loss on structured securities is determined through a comparison of the security's discounted cash flow to the amortized cost of the security. We, in conjunction with our third-party investment management service providers, make significant assumptions and use scenario-based approaches in our impairment analysis, which are subject to changes as a result of both economic fundamentals and changes in management's estimates in future periods. To the extent that the discounted cash flow is estimated to be lower than the amortized cost of the security, the security is impaired to the discounted cash flow value of all security cash flows, including both coupon and principal repayment, discounted using the forward curve.

Credit loss analysis – corporate sector securities

Credit losses on corporate securities are determined on an individual security basis. We review the circumstances and conditions associated with credit issuers, including considering credit rating and forecasted operating and financing activities of the issuer, and will make a determination as to whether we believe the issuer is likely to fully meet its contractual principal and interest obligations. To the extent we do not believe that an issuer will meet these obligations, we recognize a credit loss as the difference between the amortized cost and the estimated present value of cash flows expected to be received.

We evaluate the credit losses associated with medium term notes, which generally represent notes backed primarily by investment grade European credit. We evaluate the discounted cash flows expected from the notes over their remaining expected life, including an evaluation of the likelihood of current holdings to meet their principal and interest obligations, and incorporate current reinvestment assumptions on any security maturities or reinvestment of cash flows and, to the extent the discounted cash flow value is below the amortized cost, we recognize an impairment charge.

Credit loss analysis – government sector securities

Credit losses on government and government-related securities are determined on an individual security basis. We review the circumstances and conditions associated with government issuers, including credit rating and fundamental views on the government entity under consideration. Given the nature of our government holdings, we would expect that credit losses, were they to arise, would be concentrated amongst sovereigns rated BBB or lower (including peripherals and emerging market debt) or specific government-related securities.

Credit loss analysis – equities

Equity losses are also determined on an individual security basis. However, unlike credit products (discussed above) on which we make determinations based on the likelihood of meeting contractual obligations, there is no notion of par value for equity securities. Accordingly, equity losses are determined using screens that compare the current market value with the original purchase cost. If the current market value has remained below original purchase cost for more than eleven months or if the current market value has declined by more than 50% from the original purchase cost, we recognize an impairment charge as the difference between current market value and the original purchase cost.

4) Income Taxes

We utilize the asset and liability method of accounting for income taxes. Under this method, deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

We had net operating tax loss carry forward balances of $49.8 million (net of a $15.0 million uncertain tax position) and $89.2 million and held a valuation allowance of $43.8 million and $44.7 million at December 31, 2014 and 2013, respectively. We had realized capital loss carry forward balances of approximately $97.2 million and $141.0 million at December 31, 2014 and 2013, respectively. We held a valuation allowance of $97.2 million and $141.0 million at

December 31, 2014 and 2013, respectively. In addition, we had capital losses arising from the sale of investments to an affiliate of $57.4 million and $69.5 million at December 31, 2014 and 2013, respectively, and held a full valuation allowance against the associated tax of $57.4 million and $69.5 million, respectively.

The realizability of deferred tax assets, including the tax losses noted above, is evaluated based upon management's assessment of taxable income in prior eligible carryback years, future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, and tax planning strategies that would, if necessary, be implemented. A valuation allowance may have to be established for any portion of a deferred tax asset that management believes will not be realized. Should the future income of these entities fall below expectations, a further valuation allowance would have to be established, which could be significant. In addition, if any further losses are generated by these entities, these losses may not provide a tax benefit.

In evaluating our tax positions, we recognize the tax benefit from an uncertain tax position only if, based on the technical merits of the position, it is more likely than not that the tax position will be sustained upon examination by the taxing authorities. Tax positions that meet the more likely than not threshold are then measured using a probability weighted approach, whereby the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement is recognized. The tax positions that we have taken or expect to take are based upon the application of tax laws and regulations, which are subject to interpretation, judgment and uncertainty. As a result, our actual liability for income taxes may differ significantly from our estimates.

For further information, see "Other Revenues and Expenses" and Item 8, Note 24, "Taxation," to the Consolidated Financial Statements included herein.

5) Reinsurance Premium Estimates

We write business on both an excess of loss and proportional basis. In the case of excess of loss contracts, the ceding insurer's premium, the subject written premium, is generally outlined within the treaty and we receive a minimum and/or deposit premium on a quarterly basis, which is normally followed by an adjustment premium based on the ultimate subject premium for the contract. An estimate of the premium is recorded at the inception of the contract. We estimate the premium written on the basis of the expected subject premium and regularly review this against actual quarterly statements to revise the estimate based on the information provided by the cedant.

On proportional contracts, written premiums are estimated based on expected ultimate premiums using information provided by the ceding companies. The ceding company's premium estimate may be adjusted based on its history of providing accurate premium estimates. When the actual premium is reported by the ceding company, normally on a quarterly basis, it may be materially higher or lower than the estimate. Adjustments arising from the reporting of the actual premium by the ceding companies are recorded at the earliest point in time that the supporting information indicates an adjustment is appropriate.

Written premiums on excess of loss contracts are earned in accordance with the loss occurring period defined within the treaty, normally 12 months following inception of the contract. Written premiums on proportional contracts are earned over the risk periods of the underlying policies issued and renewed, normally 24 months. For both excess of loss and proportional contracts, the earned premium is recognized ratably over the earning period, namely 12 to 24 months. The portion of the premium related to the unexpired portion of the policy at the end of any reporting period is reflected in unearned premiums.

Reinstatement premiums are recognized at the time a loss event occurs where coverage limits for the remaining life of the contract are reinstated under pre-defined contract terms and are fully earned when recognized. Recognition of reinstatement premiums is based on our estimate of loss and loss adjustment expense reserves, which involves management judgment.

Reinsurance business by its nature can add further complications since, generally, the ultimate premium due under a specific contract will not be known at the time the contract is entered into. As a result, more judgment and ongoing monitoring is required to establish premiums written and earned in our reinsurance operations.

At December 31, 2014 and 2013, the amount of premiums receivable related to our reinsurance operations amounted to $1.1 billion and $1.2 billion, respectively.

A significant portion of amounts included as premiums receivable, which represent estimated premiums written, net of commissions, is not currently due based on the terms of the underlying contracts. Management reviews the premiums receivable balance at least quarterly and provides a provision for amounts deemed to be uncollectible. We recorded a provision for uncollectible premiums receivable related to our reinsurance operations at December 31, 2014 and 2013 of $1.1 million and $1.5 million, respectively.

82

The amount of proportional and excess of loss reinsurance gross premiums written and acquisition expenses recognized by our reinsurance operations for each line of business for the years ended December 31, 2014, 2013 and 2012 was as follows:

(U.S. dollars in thousands)	2014 Gross Premiums Written	Acquisition Expenses	2013 Gross Premiums Written	Acquisition Expenses	2012 Gross Premiums Written	Acquisition Expenses
Proportional Contracts:						
Casualty – professional lines	$32,784	$17,347	$59,213	$17,383	$64,061	$16,948
Casualty – other lines	99,272	21,094	113,709	27,260	120,829	31,906
Other property	424,564	130,709	417,698	134,823	484,615	146,412
Marine, energy, aviation and satellite	52,535	11,726	34,202	11,165	51,253	13,085
Other (1)	139,321	21,911	106,331	18,643	76,598	17,206
Total proportional contracts	$748,476	$202,787	$731,153	$209,274	$797,356	$225,557
Excess of Loss Contracts:						
Casualty – professional lines	$94,092	$27,367	$139,946	$28,997	$157,293	$29,092
Casualty – other lines	203,631	34,425	218,444	37,164	211,734	34,144
Property catastrophe	493,646	40,511	556,493	49,128	537,087	43,816
Other property	161,218	15,934	169,580	16,356	168,898	17,663
Marine, energy, aviation and satellite	59,504	4,962	57,795	7,557	118,632	10,354
Other (1)	24,912	4,698	20,200	4,912	17,157	7,546
Total excess of loss contracts	$1,037,003	$127,897	$1,162,458	$144,114	$1,210,801	$142,615

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(1) Other includes whole account, credit, surety, structured indemnity and other lines.

6) Goodwill

We have recorded goodwill in connection with various acquisitions in prior years. Goodwill represents the excess of the purchase price over the fair value of net assets acquired. We test goodwill for potential impairment annually as of June 30, and between annual tests if an event occurs or circumstances change that may indicate that potential exists for the fair value of a reporting unit to be reduced to a level below its carrying amount. We test for impairment at the reporting unit level using a two-step process in accordance with authoritative guidance. For the reinsurance segment, in which all of our current goodwill resides, a reporting unit is one level below the business segment, while for insurance, the segment traditionally was also the reporting unit. The first step is to identify potential impairment by comparing the estimated fair value of a reporting unit to the estimated book value, including goodwill. The fair value of each reporting unit is derived based upon valuation techniques and assumptions we believe market participants would use to value the business and this is then compared to the book value of the business. We derive the net book value of our reporting units by estimating the amount of shareholders' equity required to support the activities of each reporting unit.

The estimated fair values of the reporting units are generally determined utilizing methodologies that incorporate price-to-net-tangible-book and price-to-earnings multiples of certain comparable companies, from an operational and economic standpoint. If such estimated fair value, combined with an estimate of an appropriate control premium (i.e, the value an investor would pay above minority interest transaction prices in order to obtain a controlling interest in the respective company), indicates a "close call" or potential impairment, additional analysis using discounted cash flows is performed. The results of the various valuation methodologies utilized are then weighted to arrive at a

selected estimated fair value for each reporting unit. If the estimated fair value exceeds the book value, goodwill at the reporting unit level is not deemed to be impaired. If the book value exceeds the estimated fair value, the second step of the process is performed to measure the amount of impairment.

We had goodwill of $415.9 million at December 31, 2014, all relating to the Reinsurance segment. The estimated fair values of the reporting units carrying goodwill exceeded their estimated net book values at December 31, 2014, and therefore no impairments were recorded during 2014.

For further detailed information, see Item 8, Note 9, “Goodwill and Other Intangible Assets,” to the Consolidated Financial Statements included herein.

Segments

We are organized into two operating segments: Insurance and Reinsurance. Subsequent to the transaction as described in Item 8, Note 3, "Sale of Life Reinsurance Subsidiary," to the Consolidated Financial Statements, GCLR reinsures the majority of our life reinsurance business through the Life Retro Arrangements. As a result, we longer consider our Life operations to be a separate operating segment, and the results of the Run-Off Life Operations are reported within "Corporate and Other." The Run-Off Life Operations - Life Retro Arrangements were, prior to June 30, 2014, reported within our Life operations segment. Our general investment and financing operations are reflected in Corporate and Other. Prior period information has been re-presented to reflect the current presentation.

We evaluate the performance of both the Insurance and Reinsurance segments based on underwriting profit. Other items of our revenue and expenditures are not evaluated at the segment level for reporting purposes. In addition, we do not allocate investment assets by segment for our P&C operations. Investment assets related to our Run-Off Life Operations, and certain structured products included in the Insurance and Reinsurance segments and Corporate and Other are held in separately identified portfolios. As such, net investment income from these assets is included in the contribution from each of these segments. See Item 8, Note 5, “Segment Information,” to the Consolidated Financial Statements included herein, for a reconciliation of segment data to our consolidated financial statements.

Income Statement Analysis

Insurance

As outlined in Item 1, “Business,” our Insurance operations are divided into four business groups: International Property and Casualty (“IPC”), North America Property and Casualty (“NAPC”), Global Professional Lines (“Professional”) and Global Specialty Lines (“Specialty”). We provide customized insurance policies for complex corporate risks distributed through a wide variety of local, national and international producers. We offer a comprehensive set of coverages across Casualty, Professional, Property and Specialty lines and deliver solutions to clients operating in a broad array of industries representing all major sectors of the economy in the following lines of business: property, casualty, professional liability, environmental liability, aviation and satellite, marine and offshore energy, equine, fine art and specie, surplus lines, political risk and trade credit, crisis management, surety and other industry coverages, including those mentioned above, through our programs, middle market and construction businesses.

The following table summarizes the underwriting profit (loss) for the Insurance segment:

(U.S. dollars in thousands)	2014	2013	2012	Percentage change	
				2014 to 2013	2013 to 2012
Gross premiums written	$5,976,011	$5,523,181	$5,166,973	8.2 %	6.9 %
Net premiums written	4,134,151	4,154,093	4,072,511	(0.5)%	2.0 %
Net premiums earned	4,026,713	4,267,677	3,924,636	(5.6)%	8.7 %
Net losses and loss expenses	2,543,108	2,829,999	2,691,056	(10.1)%	5.2 %
Acquisition costs	393,319	529,270	504,227	(25.7)%	5.0 %
Operating expenses	865,592	782,677	754,308	10.6 %	3.8 %
Underwriting profit (loss)	$224,694	$125,731	$(24,955)	78.7 %	N/M
Net results – structured products	43,710	15,562	20,978	N/M	(25.8)%
Net fee income and other (expense)	(10,051)	(9,317)	850	7.9 %	N/M

*N/M - Not Meaningful

Gross Premiums Written

The following table summarizes our gross premiums written by business group for the Insurance segment:

(U.S. dollars in thousands)	2014	2013	2012	Percentage change	
				2014 to 2013	2013 to 2012
IPC	$1,410,272	$1,376,246	$1,294,817	2.5 %	6.3 %
NAPC	2,001,218	1,774,596	1,520,050	12.8 %	16.7 %
Professional	1,550,929	1,465,689	1,460,018	5.8 %	0.4 %

Specialty	1,013,592	906,650	892,088	11.8 %	1.6 %
Total	$5,976,011	$5,523,181	$5,166,973	8.2 %	6.9 %

84

2014 vs. 2013: Gross premiums written increased by 8.2%. The following is a summary of the premium movements by business group:

- IPC - increase of 2.5% driven by increases in renewals and new business in International middle market, and new business in international schemes, property, and primary casualty, partially offset by decreases in property and Lloyd's middle market business lines due in part to a decline in rates.
- NAPC - increase of 12.8% largely attributable to an increase in new and renewal business in construction, surplus lines and programs business lines, as well as higher renewals in excess casualty, partially offset by pricing decreases in property and program business lines.
- Professional - increase of 5.8% mainly attributable to increases in renewals and new business in international professional due to new underwriting teams in place during the year, as well as increased renewals in select professional and U.S. professional business lines, partially offset by a decrease in rates primarily in U.S. and international professional lines.
- Specialty - increase of 11.8% due to new and renewal business in crisis management, marine, and equine business lines and new business in political risk.

Foreign exchange rate movements also impacted our gross premiums written. When evaluated in local currency, our gross premiums written increased by 7.8%, compared to the 8.2% shown above.

2013 vs. 2012: Gross premiums written increased by 6.9%. The following is a summary of the premium movements by business group:

- IPC - increase of 6.3% driven mainly by higher renewed premiums across most businesses and strong pricing, most notably in primary casualty and middle markets, as well as growth in new business in property, partially offset by lower levels of new business in primary casualty and middle markets.
- NAPC - increase of 16.7% largely driven by strong new business in construction, primary casualty and environmental as well as higher renewed premiums in property, primary and excess casualty, surplus lines and construction.
- Professional - increase of 0.4% driven primarily by increases in new business and renewed select business (which offers professional liability to small and mid-size niche professional groups in the United States) primarily in the errors and omissions, particularly in the technology industry, and programs lines of businesses; new business in Bermuda and strong pricing in the U.S., partially offset by international due to the non-renewal of a large program focused on legal professionals and lower new business.
- Specialty - increase of 1.6% due to new business in marine, and our crisis management and political risk business initiatives and improved renewed premiums in our fine art and specie and marine businesses, partially offset by lower renewed premiums and lower new business in aerospace.

Foreign exchange rate movements did not significantly impact our gross premiums written.

Net Premiums Written

2014 vs. 2013: The decrease of 0.5% resulted from an increase in ceded premiums written partially offset by the gross premiums written increases outlined above. The increase in ceded premiums written primarily relates to:

- A modification in the reinsurance structure in the latter half of 2013 to one that employs proportional reinsurance in the Professional business group, as well as higher utilization of this proportional reinsurance in our U.S. and select businesses in order to take advantage of favorable market terms;
- An increase in certain proportional reinsurance treaties cessions from higher NAPC construction writings; and
- Higher reinsurer participation on certain casualty treaties.

2013 vs. 2012: The increase of 2.0% resulted from the gross premium written increases outlined above partially offset by an increase in ceded premiums written. The increase in ceded premiums is largely attributable to a modification in our reinsurance structure within our Professional group in the latter half of 2013 to one that utilizes proportional reinsurance in order to take advantage of favorable market terms. In addition, increases in cessions due to increased global property and NAPC construction writings, plus higher reinsurer participation on certain casualty treaties contributed to the higher ceded premiums written.

This increase was also partially offset by the favorable impact of higher marine and Sandy reinstatement premiums as well as the effect of reinsurance coverage on certain NAPC discontinued lines in the prior year.

Net Premiums Earned

2014 vs. 2013: The decrease of 5.6% is attributable to higher ceded premiums written and earned in the Professional business group due to the modification in the reinsurance structure, and an increase in cessions within NAPC as mentioned above.

2013 vs. 2012: The increase of 8.7% is a reflection of the overall growth in net premiums written across all business groups in recent quarters and is mainly attributable to the earn through of strong 2013 and 2012 production in most NAPC businesses, IPC primary casualty and middle market lines and U.S. and select professional business, as well as the impact of lower reinstatement premiums than in the prior year period for marine and Sandy losses, partially offset by lower earned premiums in aerospace and international professional.

Net Losses and Loss Expenses

Combined Ratio

The following table presents the ratios for the Insurance segment:

	2014		2013		2012		Percentage Point Change			
							2014 to 2013		2013 to 2012	
Loss and loss expense ratio	63.2	%	66.3	%	68.6	%	(3.1	)	(2.3	)
Acquisition expense ratio	9.8	%	12.4	%	12.8	%	(2.6	)	(0.4	)
Operating expense ratio	21.4	%	18.4	%	19.2	%	3.0		(0.8	)
Underwriting expense ratio	31.2	%	30.8	%	32.0	%	0.4		(1.2	)
Combined ratio	94.4	%	97.1	%	100.6	%	(2.7	)	(3.5	)

The loss and loss expense ratio includes net losses incurred for both the reported year and any favorable or adverse prior year development of loss and loss expense reserves held at the beginning of the year. The following table summarizes these components of the loss ratio for the Insurance segment for the years ended December 31, 2014, 2013 and 2012:

	2014		2013		2012		Percentage Point Change			
							2014 to 2013		2013 to 2012	
Loss and loss expense ratio	63.2	%	66.3	%	68.6	%	(3.1	)	(2.3	)
Prior year reserve development	2.4	%	2.4	%	3.5	%	—		(1.1	)
Loss ratio - excluding prior year development	65.6	%	68.7	%	72.1	%	(3.1	)	(3.4	)

Loss Ratio – excluding prior year development

2014 vs. 2013: The 3.1 percentage point decrease in the loss ratio excluding prior year development was primarily as a result of lower levels of natural catastrophe losses in 2014 as compared to the same prior in 2013. Losses net of reinsurance recoveries and reinstatement premiums related to natural catastrophe events for 2014 were $50.9 million lower than in the same period in 2013. Excluding favorable prior year development, net natural catastrophe losses and related reinstatement premiums in both years, the loss ratio for the year ended December 31, 2014 compared to the same period of 2013 decreased by 2.0% percentage points to 63.9% mainly due to a lower level of large non-natural catastrophe property losses in 2014 as compared to 2013.

2013 vs. 2012: The 3.4 percentage point decrease in the loss ratio excluding prior year development was predominantly due to lower levels of catastrophe losses occurring in 2013. Losses net of reinsurance recoveries and reinstatement premiums related to natural catastrophe events were $104.0 million lower than in the same period in 2012 mainly due to losses from Sandy in 2012. Excluding favorable prior year development, net natural catastrophe losses and related reinstatement premiums in both years, the loss ratio for the year ended December 31, 2013 compared to the same period of 2012 decreased by 0.7 percentage points to 65.9% due to the impact of underwriting actions taken in the prior years and a more favorable business mix, partially offset by a higher level of large non-natural catastrophe property losses in 2013 as compared to 2012.

86

Prior Year Development

The following table summarizes the net (favorable) adverse prior year development by business group relating to the Insurance segment for the years ended December 31, 2014, 2013 and 2012:

(U.S. dollars in millions)	2014	2013	2012
Property	$(57,470)	$(46,387)	$(46,735)
Casualty	38,413	(21,829)	(61,630)
Professional	17,094	75,045	(106,360)
Specialty	(82,756)	(140,740)	(61,755)
Other (1)	(15,043)	31,872	136,414
Total	$(99,762)	$(102,039)	$(140,066)

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(1) Other includes excess and surplus, programs, surety, structured indemnity and certain discontinued lines.

For further information on the net favorable prior year reserve development for the years ended December 31, 2014, 2013 and 2012, see Item 8, Note 11 to the Consolidated Financial Statements, “Losses and Loss Expenses.”

Acquisition Costs and Operating Expenses

Underwriting Expense Ratio

2014 vs. 2013: The increase of 0.4 percentage points was due to an increase in the operating expense ratio of 3.0 percentage points partially offset by a decrease in the acquisition expense ratio of 2.6 percentage points, as follows:

Operating expense ratio - increased 3.0 percentage points largely due to the unfavorable impact of the modification of our reinsurance structure mentioned above, as well as increased compensation expenses from business expansion and higher professional fees for 2014 compared to the same period of 2013.

Acquisition expense ratio - decreased largely due to the favorable impact of the modification of our reinsurance structure mentioned above and a change in the mix of business.

2013 vs. 2012: The decrease of 1.2 percentage points was due to both a decrease in the acquisition expense ratio of 0.4 percentage points combined with a decrease in the operating expense ratio of 0.8 percentage points, as follows:

Acquisition expense ratio - decreased 0.4 percentage points largely from the favorable changes in the reinsurance structure for the professional businesses and NAPC casualty business during 2013 mentioned above, the impact of marine and Sandy reinstatement premiums and adverse ceded earned premium adjustments, primarily in NAPC in 2012, partially offset by lower ceding income in the IPC casualty business and increased commissions or adverse business mix in certain NAPC and Specialty lines in 2013.

Operating expense ratio - decreased 0.8 percentage points due to the leveraging of the growth in net premiums earned for the year ended December 31, 2013 compared to the same period of 2012, partially offset by higher compensation and professional fees compared to 2012.

Net Results – Structured Products

Net results from structured insurance products includes net investment income of $34.3 million, $37.3 million and $35.6 million and interest expense of $9.5 million, $21.8 million and $14.5 million, respectively, for the years ended December 31, 2014, 2013 and 2012.

2014 vs. 2013: The increase in the net results from the prior year period was from the negotiated termination of one of our larger structured indemnity contracts. This contract had previously been designated as part of a fair value hedge with a remaining fair value adjustment of $47.0 million that was being amortized as a reduction of interest expense over the remaining term of the contract. As a result of the termination, a net decrease of $28.7 million was recorded to interest expense reflecting the accretion rate adjustment due to changes in cash flows and the realization of the full remaining balance of the fair value hedge adjustment, resulting in a net credit to interest expense.

2013 vs. 2012: The decrease in the net results from structured insurance products of 25.8% was from lower interest expense recorded in the year ended December 31, 2013 as a result of an accretion rate adjustment, due to changes in the expected cash flows and payout patterns on certain structured indemnity contracts.

For further information about these structured indemnity contracts that are accounted for as deposit contracts and the settlement of this fair value hedge, see Item 8, Note 12, “Deposit Liabilities,” and Note 16, "Derivative Instruments - Settlement of Fair Value Hedges," respectively, to the Consolidated Financial Statements included herein.

Fee Income and Other

2014 vs. 2013: The decrease compared to the same period of 2013 in net fee income and other expenses was driven by increased costs in our risk engineering services business.

2013 vs. 2012: The decrease in net fee income and other was largely due to lower revenues in our risk engineering services business and ancillary fee income in IPC property and primary casualty compared to the prior year.

Reinsurance

As outlined in Item 1, “Business,” the Reinsurance segment provides casualty, property risk, property catastrophe, marine, aviation and other specialty reinsurance on a global basis, with business being written on both a proportional and non-proportional treaty basis and also on a facultative basis. Our reinsurance operations are structured geographically into business groups: Bermuda, North America and International (Europe, Asia Pacific, Latin America and Middle East North Africa). During the second quarter of 2013, the business groups were realigned to include Latin America within the International business group.

The following table summarizes the underwriting profit (loss) for the Reinsurance segment:

(U.S. dollars in thousands)	2014	2013	2012	Percentage change	
				2014 to 2013	2013 to 2012
Gross premiums written	$1,785,479	$1,893,611	$2,008,157	(5.7)%	(5.7)%
Net premiums written	1,633,058	1,749,889	1,884,508	(6.7)%	(7.1)%
Net premiums earned	1,690,725	1,746,422	1,841,342	(3.2)%	(5.2)%
Net losses and loss expenses	715,285	901,465	1,074,426	(20.7)%	(16.1)%
Acquisition costs	330,684	353,388	368,172	(6.4)%	(4.0)%
Operating expenses	193,404	166,238	157,657	16.3%	5.4%
Underwriting profit (loss)	$451,352	$325,331	$241,087	38.7%	34.9%
Net results – structured products	10,499	8,229	(15,721)	N/M	N/M
Net fee income and other	2,800	2,320	2,492	20.7%	(6.9)%

* N/M - Not Meaningful

Gross Premiums Written

The following table summarizes our gross premiums written by business group for the Reinsurance segment:

(U.S. dollars in thousands)	2014	2013	2012	Percentage change	
				2014 to 2013	2013 to 2012
Bermuda	$575,386	$556,905	$532,515	3.3%	4.6%
North America	443,409	513,032	562,383	(13.6)%	(8.8)%
International	766,684	823,506	916,268	(6.9)%	(10.1)%
Other (1)	—	168	(3,009)	N/M	N/M
Total	$1,785,479	$1,893,611	$2,008,157	(5.7)%	(5.7)%

(1) Other relates to discontinued structured indemnity.

* N/M - Not Meaningful

2014 vs. 2013: Gross premiums written decreased by 5.7%. The following is a summary of the premium movements by business group:

Bermuda - increase of 3.3% due to new business and favorable renewals on whole account and property treaty businesses.

North America - decrease of 13.6% largely due to unfavorable renewal activity within casualty treaty and property treaty business lines, partially offset by increased agricultural premiums within our property treaty business.

International - decrease of 6.9%, mainly driven by lower casualty and property treaty renewals due to decreases in shares and competitive market conditions in Europe and Latin America, including the non-renewal of a U.K. motor business quota share, partially offset by the impact of a reinstatement premium adjustment on prior period non-catastrophe losses.

Foreign exchange rate movements also impacted our gross premiums written. When evaluated in local currency, our gross premiums written decreased by 5.2%, compared to the 5.7% shown above.

2013 vs. 2012: Gross written premiums decreased by 5.7%. The following is a summary of the premium movements by business group:

Bermuda - increase of 4.6%, due to new whole account business, partially offset by higher property catastrophe reinstatement premiums in 2012, driven by Sandy losses, and unfavorable property catastrophe renewals due to lower rates.

North America - decrease of 8.8%, primarily as a result of the non-renewal of a crop quota share program, partially offset by a new agricultural program.

International - decrease of 10.1%, attributable to the non-renewal of certain marine exposures as a result of the re-underwriting of this line to manage aggregate exposures; reduced and non-renewals of new business and certain premium adjustments in casualty; lower renewals in Latin America as a result of re-underwriting activities and competitive market conditions in the region; and higher reinstatement premiums in 2012, driven by marine and Sandy losses.

Foreign exchange rate movements also impacted our gross premiums written. When evaluated in local currency, our gross written premiums decreased by 6.0%, compared to the 5.7% shown above.

Net Premiums Written

2014 vs. 2013: The decrease of 6.7% resulted from the gross written premium decreases outlined above together with an increase in ceded written premiums, mainly related to agricultural business in North America.

2013 vs. 2012: The decrease of 7.1% resulted from the decreases in gross written premiums described above in the International and North America business groups and an increase in ceded premiums written, mainly due to a new agricultural program in North America.

Net Premiums Earned

2014 vs. 2013: The decrease of 3.2% is mainly attributable to the overall earn-through of lower current year written premiums in the North America casualty treaty business and in the International casualty treaty and property treaty businesses, due to competitive market conditions, partially offset by the impact of a reinstatement premium adjustment on prior period non-catastrophe losses, as noted above.

2013 vs. 2012: The decrease of 5.2% is a reflection of the non-renewal of a crop quota share program in North America and the decrease in net premiums written in recent quarters from the International marine and Latin America businesses, as a result of re-underwriting activities and from a reduction in reinstatement premiums in 2013 due to higher marine and property losses in 2012, as a result of Sandy losses.

Net Losses and Loss Expenses

Combined Ratio

The following table presents the ratios for the Reinsurance segment:

	2014		2013		2012		Percentage Point Change			
							2014 to 2013		2013 to 2012	
Loss and loss expense ratio	42.3	%	51.6	%	58.4	%	(9.3	)	(6.8	)
Acquisition expense ratio	19.6	%	20.2	%	20.0	%	(0.6	)	0.2	
Operating expense ratio	11.4	%	9.6	%	8.5	%	1.8		1.1	
Underwriting expense ratio	31.0	%	29.8	%	28.5	%	1.2		1.3	
Combined ratio	73.3	%	81.4	%	86.9	%	(8.1	)	(5.5	)

The loss and loss expense ratio includes net losses incurred for both the reported year and any favorable or adverse prior year development of loss and loss expense reserves held at the beginning of the year. The following table summarizes these components of the loss ratio for the Reinsurance segment for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012	Percentage Point Change 2014 to 2013	Percentage Point Change 2013 to 2012
Loss and loss expense ratio	42.3 %	51.6 %	58.4 %	(9.3)	(6.8)
Prior year reserve development	9.2 %	10.8 %	9.5 %	(1.6)	1.3
Loss ratio excluding prior year development	51.5 %	62.4 %	67.9 %	(10.9)	(5.5)

Loss Ratio – excluding prior year development

2014 vs. 2013: The 10.9 percentage point decrease in the loss ratio - excluding prior year development was primarily as a result of lower levels of natural catastrophe losses in 2014 as compared to the prior year period. Losses net of reinsurance recoveries and reinstatement premiums related to natural catastrophe events for 2014 were $153.1 million lower than in the same period in 2013. Excluding favorable prior year development, net natural catastrophe losses and related reinstatement premiums in both years, the loss ratio for year ended December 31, 2014 compared to the same period of 2013 decreased by 1.8 percentage points to 48.7% mainly due to a lower level of large non-natural catastrophe property losses in 2014 as compared to 2013.

2013 vs. 2012: The 5.5 percentage point decrease in the loss ratio - excluding prior year development was predominantly due to lower levels of catastrophe losses occurring in 2013. Losses net of reinsurance recoveries and reinstatement premiums related to natural catastrophe events were $43.0 million lower than in the same period in 2012 mainly due to losses from Sandy in 2012. Excluding favorable prior year development, net natural catastrophe losses and related reinstatement premiums in both years, the loss ratio for the year ended December 31, 2013 compared to the same period of 2012 decreased by 3.6 percentage points to 50.5%. This reduction is mainly due to lower levels of large non-natural catastrophe losses in 2013 in comparison to a large marine loss in the International business group and adverse crop experience related to the drought conditions in the U.S. in 2012.

For further details on large loss activity including losses from natural catastrophes, see "Significant Items Affecting the Results of Operations - 1) The Impact of Significant Large Loss Events" above.

Prior Year Development

The following table summarizes the net (favorable) adverse prior year development by line of business relating to the reinsurance segment for the years ended December 31, 2014, 2013 and 2012:

(U.S. dollars in thousands)	2014	2013	2012
Property and other short-tail lines	$(85,324)	$(136,912)	$(107,613)
Casualty and other	(69,990)	(50,938)	(68,215)
Total	$(155,314)	$(187,850)	$(175,828)

For further information on the net favorable prior year reserve development for the years ended December 31, 2014, 2013 and 2012, see Item 8, Note 11 to the Consolidated Financial Statements, “Losses and Loss Expenses.”

Acquisition Costs and Operating Expenses

Underwriting Expense Ratio

2014 vs. 2013: The increase of 1.2 percentage points in the underwriting expense ratio was due to an increase in the operating expense ratio of 1.8 percentage points, partially offset by a decrease in the acquisition expense ratio of 0.6 percentage points, as follows:

Operating expense ratio - increased in 2014 compared to the same period in 2013 due to higher compensation costs associated with the expansion of agricultural business in North America and capital markets in Bermuda in 2014, combined with the impact of lower net earned premiums in 2014.

Acquisition expense ratio - decreased mainly due to a change in the International business mix due to the expiration and non-renewal of a large motor quota share deal, and lower profit based commissions in Latin America.

2013 vs. 2012: The increase of 1.3 percentage points was due to an increase in the operating expense ratio of 1.1 percentage points coupled with a marginal increase in the acquisition expense ratio of 0.2 percentage points, as

follows:

Operating expense ratio - increased mainly due to higher compensation costs while net premiums earned decreased compared to 2012, and higher professional fees from the establishment of new business initiatives.
Acquisition expense ratio - increased largely from an increase in profit based commissions on prior underwriting years in Bermuda on property treaty lines in the year ended December 31, 2013.

Net Results – Structured Products

Net results from structured reinsurance products includes net investment income of $33.8 million, $34.6 million and $36.1 million and interest expense of $22.3 million, $26.2 million and $51.8 million, respectively, for the years ended December 31, 2014, 2013 and 2012.

2014 vs. 2013: The increase in the net results from the prior year period was mainly due to a reduction in interest expense resulting from changes in the expected cash flows and payout patterns on one of the larger structured indemnity contracts.

2013 vs. 2012: The increase in the net results from structured reinsurance products was predominantly attributable to the larger interest expense incurred in the year ended December 31, 2012 as a result of an accretion rate adjustment, due to changes in the expected cash flows and payout patterns on one of the larger structured indemnity contracts.

For further information about these structured indemnity contracts that are accounted for as deposit contracts see Item 8, Note 12 to the Consolidated Financial Statements,“Deposit Liabilities.”

Corporate and Other (Including Run-Off Life Operations)

Our general investment and financing operations are reflected in Corporate and Other. In addition, results of our Run-Off Life Operations are reported within "Corporate and Other." We ceased writing new life reinsurance contracts in 2009 and since that time have been managing the run-off of our life reinsurance operations.

Run-Off Life Operations

As stated above, XLIB entered into a sale and purchase agreement with GreyCastle providing for the sale of 100% of the common shares of its life reinsurance subsidiary, XLLR. As a result, we have ceded the majority of our life reinsurance business to GCLR through the Life Retro Arrangements. This transaction covers a substantial portion of our life reinsurance reserves. At December 31, 2014, gross future policy benefit reserves relating to the Run-Off Life Operations were approximately $4.7 billion, of which we retained approximately $0.4 billion, after consideration of our future policy benefit reserves recoverable from GCLR of $4.3 billion.

Subsequent to the transaction, we longer consider our Life operations to be a separate operating segment, and the results of the Run-Off Life Operations are reported within "Corporate and Other." The Run-Off Life Operations - Life Retro Arrangements were, prior to June 30, 2014, reported within our Life operations segment. Prior period information has been recast to reflect the current presentation. For a further discussion, see Item 8, Note 3, "Sale of Life Reinsurance Subsidiary," to the Consolidated Financial Statements included herein.

Impact of Life Retro Arrangements

Subsequent to the completion of the life transaction as described in Item 8, Note 3, "Sale of Life Reinsurance Subsidiary," to the Consolidated Financial Statements included herein, the impact of the Life Retro Arrangements on our results from the completion of the transaction on May 30, 2014 through December 31, 2014 were as follows:

Impact of Life Retro Arrangements	May 30 to December 31,	
(U.S. dollars in thousands)	2014	
Underwriting profit (loss) (1)	$11,649	
Net investment income - Life Funds Withheld Assets	129,575	
Net realized gains (losses) on investments sold - Life Funds Withheld Assets	5,067	
Net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets	(9	)
OTTI on investments - Life Funds Withheld Assets	(20,587	)
Exchange (gains) losses	10,099	
Other income and expenses	(1,610	)
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	(488,222	)
Net income (loss)	$(354,038	)
Change in net unrealized gains (losses) on investments - Life Funds Withheld Assets, net of tax	274,083	
Change in adjustments related to future policy benefit reserves, net of tax	74,009	
Change in cumulative translation adjustment - Life Funds Withheld Assets, net of tax	17,595	
Total changes to other comprehensive income as a result of Life Retro Arrangements	$365,687	
Comprehensive income (loss) (1)	$11,649	

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(1) The underwriting profit of $11.6 million relates to a premium adjustment relating to the Life Retro Arrangements transaction which was completed on May 30, 2014. Excluding this transaction, the impact to comprehensive income relating to the Life Retro Arrangements was nil for the year ended December 31, 2014.

As shown in the table above, although our net income (loss) is subject to variability related to the Life Retro Arrangements, there is no recurring net impact on our future comprehensive income in any period. The life retrocession embedded derivative value includes the interest income, unrealized gains and losses, and realized gains and losses from sales of the Life Funds Withheld Assets subsequent to May 30, 2014. For further information on the life retrocession embedded derivative, see Item 8, Note 16(d)(iii), “Derivative Instruments - Other Non-Investment Derivatives,” to the Consolidated Financial Statements included herein.

Run-Off Life Operations - not subject to Life Retro Arrangements

During the year ended December 31, 2014, our net underwriting result from our Run-Off Life Operations - not subject to Life Retro Arrangements was a loss of $109.9 million and our net investment result relating to our Run-Off Life Operations - not subject to Life Retro Arrangements, including net realized gains and losses, was $150.2 million, producing a net income from Run-Off Life Operations - not subject to Life Retro Arrangements of $40.3 million.

Investment Performance (Excluding Life Funds Withheld Assets)

We manage our fixed income portfolio in accordance with investment guidelines approved by the RFC. The following is a summary of the investment portfolio returns, which are calculated by dividing the sum of gross investment income or net income from investment affiliates, realized gains (losses) and unrealized gains (losses) by the average market value of each portfolio, for the years ended December 31, 2014 and 2013:

	2014		2013	
Total Return on Investments (1)	5.5	%	0.7	%
Other Portfolios (2)				
Alternative portfolio (3)	6.4	%	12.2	%
Equity portfolio	5.6	%	21.7	%

(1) The performance of investment portfolios is measured on a local currency basis. For aggregate performance calculation, respective local currency balances are translated to U.S. dollars at quarter end rates to calculate composite portfolio results.

(2) Performance on Other Portfolios is included in the Total Return on Investments.

(3) Performance on the alternative portfolio reflects the twelve months ended November 30, 2014 and 2013, respectively, for both equity and non-equity alternative funds.

Investment Activities (Excluding Life Funds Withheld Assets)

The following table illustrates net investment income, net income from investment fund affiliates, net realized (losses) gains on investments and net realized and unrealized gains (losses) on derivative instruments for the years ended December 31, 2014, 2013 and 2012:

(U.S. dollars in thousands)	2014	2013	2012	Percentage change 2014 to 2013	2013 to 2012
Net investment income - P&C Operations (1)	$642,492	$671,071	$712,905	(4.3)%	(5.9)%
Net income (loss) from investment fund affiliates (2)	$95,816	$138,391	$58,504	(30.8)%	N/M
Net realized gains (losses) on investments	$122,991	$87,777	$14,098	40.1 %	N/M
Net realized and unrealized gains (losses) on investment related derivative instruments (3)	$29,886	$7,798	$5,221	N/M	49.4 %

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(1) Net investment income includes: Net investment income - excluding Life Funds Withheld Assets and net investment income related to the net results from structured products.

(2) We generally record the income related to alternative fund affiliates on a one-month lag and the private investment fund affiliates on a three-month lag based upon the availability of the information provided by the investees.

(3) For a summary of realized and unrealized gains and losses on all derivative instruments, see Item 8, Note 16, “Derivative Instruments,” to the Consolidated Financial Statements included herein.

*N/M - Not Meaningful

Net Investment Income

2014 vs. 2013: The decrease of 4.3% was primarily due to the impact of the Life Retro Arrangements, which are now excluded, since all of the investment results associated with the Life Funds Withheld Assets ultimately accrue to GCLR. For further information on the Life Retro Arrangements see Item 8, Note 3, “Sale of Life Reinsurance Subsidiary,” to the Consolidated Financial Statements included herein.

In addition, a reduction in investment yields as a result of lower reinvestment rates contributed to the net investment income decrease. We estimate that approximately $3.1 billion of assets with an average gross book yield of 3.0% will mature and pay down over the next 12 months compared to the average new money rate in 2014 on our portfolio of 1.8%.

2013 vs. 2012: The decrease of 5.9% was primarily due to a reduction in investment yields as a result of lower reinvestment rates. At December 31, 2013, we estimated that approximately $3.2 billion of our P&C assets with an average gross book yield of 2.8% would mature and pay down over the next 12 months. This compared to our average new money rate on our P&C portfolio in the three months ended December 31, 2013 of 2.0%.

Net Income (Loss) from Investment Fund Affiliates

Net income from investment fund affiliates includes earnings from our investments in closed-end investment funds and partnerships and similar vehicles that are accounted for under the equity method.

2014 vs. 2013: Performance for 2014 was strong but lagged behind very strong results from the same period of 2013. Alternative investment fund returns were strong and generally diversified across strategies in the most recently completed fiscal year, while very strong equity market returns and moderate volatility during 2013 were highly supportive of alternative fund returns, in particular for market-directional strategies such as equity long/short, event driven and structured credit. Private investment fund returns were also strong for 2014 and in line with the prior year period's results.

2013 vs. 2012: The increase was attributable to significantly better performance from both alternative fund affiliates and private fund affiliates. Prior year results were more muted, due in part to more conservative risk taking by our managers and market volatility in May 2012. Results for 2013 were driven by very strong manager performance and generally supportive markets.

Net Realized Gains and Losses on Investments and Other-than-Temporary Declines in the Value of Investments

Net Realized Gains and Losses on Investments (Excluding Life Funds Withheld Assets)

For the year ended December 31, 2014, net realized gains on investments of $123.0 million included the following:

Net realized gains of $158.7 million resulted primarily from sales of equities and fixed maturities.

Realized losses of approximately $35.7 million related to the write-down of certain of our AFS investments. The main components of the net impairment charges were:

$12.5 million related to Other Investments.

$11.0 million related to certain equities as the holdings were in a loss position for more than 11 months or impaired by more than 50%.
$3.7 million related to change of intent to hold certain Corporate High Yield securities.
$4.3 million for structured securities, principally non-Agency RMBS, where we determined that the likely recovery on these securities was below the carrying value and, accordingly, recorded an impairment of the securities to the discounted value of the cash flows expected to be received on these securities.
$4.2 million related to foreign exchange losses.

For the year ended December 31, 2013, net realized gains on investments of $87.8 million included the following:
Net realized gains of $104.1 million resulted from sales transactions primarily from a repositioning of the Agency RMBS portfolio and sales of equity and non-U.S. Sovereign Government securities.
Realized losses of approximately $16.3 million related to the write-down of certain of the Company's AFS investments. The significant components of the net impairment charges were:
$7.7 million for structured securities, principally non-Agency RMBS, where we determined that the likely recovery on these securities was below the carrying value and, accordingly, recorded an impairment of the securities to the discounted value of the cash flows expected to be received on these securities.
$4.3 million related to medium term notes backed primarily by European investment grade credit. On certain notes, management concluded that expected future returns on the underlying assets were not sufficient to support the previously reported amortized cost. We also adjusted the estimated remaining holding period of certain notes resulting in a shorter reinvestment spectrum.
$4.3 million related to foreign exchange losses primarily arising on Swiss franc and U.K. sterling denominated securities held in U.S. dollar portfolios.

Net Realized and Unrealized Gains and Losses on Investment Related Derivative Instruments

Net realized and unrealized gains on investment related derivatives of $29.9 million in the year ended December 31, 2014 resulted from our investment strategy to manage interest rate risk, foreign exchange risk and credit risk, and to replicate permitted investments. For a further discussion, see Item 8, Note 16, "Derivative Instruments," to the Consolidated Financial Statements included herein.

Other Revenues and Expenses

The following table sets forth our other revenues and expenses for the years ended December 31, 2014, 2013 and 2012:

(U.S. dollars in thousands)	2014	2013	2012	Percentage Change	
				2014 to 2013	2013 to 2012
Net income (loss) from operating affiliates (1)	$107,218	$119,804	$53,887	(10.5)%	N/M
Foreign exchange (gains) losses	$(37,568)	$(28,243)	$10,545	33.0%	N/M
Corporate operating expenses	$220,165	$209,454	$204,502	5.1%	2.4%
Loss on sale of life reinsurance subsidiary	$666,423	$—	$—	—%	—%
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	$(488,222)	$—	$—	—%	—%
Interest expense (2)	$121,221	$107,486	$105,925	12.8%	1.5%
Income tax expense	$96,897	$77,505	$34,028	25.0%	N/M

(1) We generally record the income related to certain operating affiliates on a three-month lag based upon the availability of the information provided by the investees.
(2) Interest expense includes costs related to our debt and collateral facilities and does not include deposit liability accretion, which is included in Net investment results - structured products.
* N/M - Not Meaningful

Net Income (Loss) from Operating Affiliates

The following table sets forth the net income (loss) from operating affiliates for the years ended December 31, 2014, 2013 and 2012:

(U.S. dollars in thousands)	2014	2013	2012	Percentage Change 2014 to 2013	2013 to 2012
Net income (loss) from investment manager affiliates	$57,086	$78,644	$28,776	(27.4)%	N/M
Net income (loss) from strategic operating affiliates	50,132	41,160	25,111	21.8 %	63.9 %
Total	$107,218	$119,804	$53,887	(10.5)%	N/M

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*N/M - Not Meaningful

Net Income from Investment Manager Affiliates

2014 vs. 2013: The results for 2014 were strong but lagged behind the results of 2013. The most recently completed fiscal year saw good progress from several newer investment manager affiliate holdings, while the prior year's results were notable for especially strong incentive fees for those affiliate managers that charge such fees and gains associated with several liquidity events.

2013 vs. 2012: The increase reflects strong investment performance for several investment manager affiliates in the final quarter of 2012 and the first three quarters of 2013, leading to strong incentive fees for the managers, which are reported on a one quarter-lag basis in our results. In addition, we sold a portion of our stake in one of our affiliate investment managers at a gain and received a final earn-out consideration payment from the sale of another affiliate investment manager, which are both reflected in the 2013 results.

Net Income from Strategic Operating Affiliates

2014 vs. 2013: The increase of 21.8% was largely due to higher current period income related to ARX, our insurance affiliate that writes direct U.S. homeowners' insurance, with more modest favorable variances from several other operating affiliates.

2013 vs. 2012: The 63.9% increase reflects increased returns from our U.S. homeowners' affiliate and income from new strategic operating affiliates in 2013.

Foreign Exchange Gains/Losses

The foreign exchange gains of $37.6 million in the year ended December 31, 2014 were a result of an overall strengthening of the value of the U.S. dollar against our major currency exposures, including the Euro, Swiss franc, Canadian dollar, Australian dollar, and U.K. sterling, particularly in the last quarter of the year. In the year ended December 31, 2013, foreign exchange losses of $28.2 million were produced as a result of an overall weakening of the value of the U.S. dollar against our major currency exposures, particularly the U.K. sterling, the Euro and the Swiss franc.

Corporate Operating Expenses

2014 vs. 2013: The increase of 5.1% was mainly a result of increased compensation costs due to improved metrics on variable compensation plans, additional headcount and increases in professional and regulatory fees.

2013 vs. 2012: The increase of 2.4% was a result of increased compensation costs as well as an increase in professional fees associated with infrastructure and organizational initiatives.

Loss on Sale of Life Reinsurance Subsidiary

The loss on sale of life reinsurance subsidiary was due to the sale of 100% of the common shares of XLLR, a wholly-owned subsidiary of XLIB, to GreyCastle for $570 million in cash. For a further discussion, see Item 8, Note 3, “Sale of Life Reinsurance Subsidiary,” to the Consolidated Financial Statements included herein.

Net Realized and Unrealized Gains and Losses on Life Retrocession Embedded Derivative and Derivative Instruments - Life Funds Withheld Assets

The Company has entered into Life Retro Arrangements as described in Item 8, Note 2, "Significant Accounting Policies - (c) Investments - Investments Related to Life Retrocession Arrangements written on a Funds Withheld Basis and (e) Reinsurance," and Note 3, "Sale of Life Reinsurance Subsidiary," to the Consolidated Financial Statements included herein. The embedded derivative 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." For a further discussion, see Item 8, Note 16, “Derivative Instruments,” to the Consolidated Financial Statements included herein and "Impact of Life Retro Arrangements" above.

Interest Expense

Interest expense includes costs related to our debt and collateral facilities and does not include deposit liability accretion, which is included in Net investment results – structured products.

2014 vs. 2013: The increase of 12.8% was a result of the overall increase in our debt following the issuance of the 2.30% Senior Notes due 2018 and the 5.25% Senior Notes due 2043 during the fourth quarter of 2013.

2013 vs. 2012: The increase of 1.5% was a result of the overall increase in our debt following the sale of 2.30% Senior Notes due 2018 and the sale of 5.25% Senior Notes due 2043 during the fourth quarter of 2013. See further discussion under “Other Key Focuses of Management.”

For further information about these debt financing transactions see Item 8, Note 15, “Notes Payable and Debt and Financing Arrangements,” to the Consolidated Financial Statements included herein.

Income Tax Expense

2014 vs. 2013: The tax charge of $96.9 million recognized in 2014 was higher than in 2013 principally because of the distribution of earnings in taxable and non-taxable jurisdictions. Included in the 2014 tax charge is a $45.1 million benefit recognized related to the loss on the sale of the life reinsurance subsidiary.

2013 vs. 2012: The tax charge of $77.5 million recognized in 2013 was higher than in 2012 due to a combination of higher income in taxable jurisdictions in the year ended December 31, 2013 than in the previous year as well as the recording of a provision relating to uncertain tax positions of $30.0 million during the current year.

Balance Sheet Analysis

Investments (Excluding Life Funds Withheld Assets)

We seek to generate growth in book value and net investment income through our investment activities. Our investment strategy (see Item 1. "Business - Investments") strives to balance investment returns against market and credit risk. Our overall investment portfolio is structured to take into account a number of variables including liability profile, local regulatory requirements, business needs, collateral management and risk tolerance.

As described in Item 8, Note 3, "Sale of Life Reinsurance Subsidiary," and Note 6, “Investments,” to the Consolidated Financial Statements included herein, in connection with the Life Retro Arrangements certain fixed maturities were reclassified from held to maturity to available for sale. All of the reclassified securities are included within the Life Funds Withheld Assets, along with certain other available for sale securities as defined in the sale and purchase agreement. The Life Funds Withheld Assets are managed pursuant to agreed upon 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 we no longer share in the risks and rewards of the underlying performance of the supporting invested assets, disclosures within the financial statement notes included herein, and in the table below, separately report the Life Funds Withheld Assets from the rest of our investments. The remaining disclosures in this section exclude the Life Funds Withheld Assets.

At December 31, 2014 and 2013, total investments and cash and cash equivalents, including accrued investment income and net receivable/(payable) for investments sold/(purchased) but excluding Life Funds Withheld Assets, were approximately $31.1 billion and $36.6 billion, respectively. The following table summarizes the composition of our invested assets, excluding Life Funds Withheld Assets, at December 31, 2014 and 2013:

(U.S. dollars in thousands)	2014 Carrying Value (1)	Percent of Total		2013 Carrying Value (1)	Percent of Total	
Cash and cash equivalents	$2,521,814	8.1	%	$1,800,832	4.9	%
Net receivable/ (payable) for investments sold/ (purchased)	$50,471	0.2	%	$84,603	0.2	%
Accrued investment income	$315,964	1.0	%	$346,809	0.9	%
Short-term investments	$256,727	0.8	%	$456,288	1.2	%
Fixed maturities - AFS:						
U.S. Government and Government-Related/Supported	$2,171,953	7.0	%	$2,501,851	6.8	%
Corporate - Financials (2)	2,761,916	8.9	%	3,481,991	9.5	%
Corporate - Non Financials (2)	6,016,457	19.4	%	7,643,839	20.9	%
RMBS – Agency	3,728,576	12.0	%	3,546,122	9.7	%
RMBS – Non-Agency	427,351	1.4	%	398,768	1.1	%
CMBS	1,052,544	3.4	%	1,246,795	3.4	%
CDO	692,034	2.2	%	717,313	2.0	%
Other asset-backed securities (2)	1,065,293	3.4	%	1,242,104	3.4	%
U.S. States and political subdivisions of the States	2,021,272	6.5	%	1,845,812	5.0	%
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	4,240,073	13.6	%	4,875,541	13.3	%
Total fixed maturities - AFS	$24,177,469	77.8	%	$27,500,136	75.1	%
Fixed maturities - held to maturity ("HTM"):						
U.S. Government and Government-Related/Supported	$—	—	%	$10,993	—	%
Corporate - Financials (2)	—	—	%	269,547	0.7	%
Corporate - Non Financials (2)	—	—	%	1,117,316	3.1	%
RMBS – Non-Agency	—	—	%	66,987	0.2	%
CMBS	—	—	%	144,924	0.4	%
Other asset-backed securities	—	—	%	106,540	0.3	%
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	—	—	%	1,142,388	3.1	%
Total fixed maturities - HTM	$—	—	%	$2,858,695	7.8	%
Equity securities	868,292	2.8	%	1,040,237	2.8	%
Investments in affiliates	1,637,620	5.3	%	1,370,943	3.8	%
Other investments	1,248,439	4.0	%	1,164,630	3.3	%
Total investments and cash and cash equivalents - excluding Life Funds Withheld Assets	$31,076,796	100.0	%	$36,623,173	100.0	%

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(1) Carrying value represents the fair value for AFS fixed maturities and amortized cost for HTM securities.

(2) Includes certain floating rate medium term notes supported primarily by pools of European investment grade credit with varying degrees of leverage. The notes have a carrying value of $79.9 million and $154.6 million and an amortized cost of $68.4 million and $147.7 million at December 31, 2014 and December 31, 2013, respectively. These securities have been allocated ratings of the underlying pool of securities. 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.

We review our corporate debt investments on a regular basis to consider their concentration, credit quality and compliance with established guidelines. At December 31, 2014 and 2013, the average credit quality of our total fixed income portfolio (consisting of corporate debt and U.S. Agency debt and related mortgage-backed securities having fixed maturities and including short-term investments, cash and cash equivalents and net receivable/(payable) for investments sold/(purchased)) was "Aa3/AA-". Included in the table below are the credit ratings of the fixed income

portfolio excluding operating cash at December 31, 2014 and 2013:

Investments by Credit Rating (1)	2014		2013	
(U.S. dollars in millions)	Carrying Value (2)	Percent of Total	Carrying Value	Percent of Total
AAA	$11,509	44.1 %	$12,957	40.6 %
AA	5,334	20.4 %	6,738	21.1 %
A	6,158	23.6 %	7,761	24.3 %
BBB	2,321	8.9 %	3,654	11.4 %
BB and below	793	3.0 %	792	2.5 %
Not rated	15	— %	18	0.1 %
Total	$26,130	100.0 %	$31,920	100.0 %

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(1) The credit rating for each asset reflected above was principally determined based on the weighted average rating of the individual securities from Standard & Poor's, Moody's Investors Service and Fitch Ratings (when available). U.S. Agency debt and related mortgage-backed securities, whether with implicit or explicit government support, reflect the credit quality rating of the U.S. government for the purpose of these calculations.

(2) Excludes Life Funds Withheld Assets.

Gross and Net Unrealized Gains and Losses on Investments (Excluding Life Funds Withheld Assets)

We had gross unrealized losses totaling $213.6 million on 1,631 securities out of a total of 7,669 held at December 31, 2014 in our AFS portfolio (excluding Life Funds Withheld Assets) that we consider to be temporarily impaired. 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.

Gross unrealized losses can be attributed to the following significant drivers:

gross unrealized losses of $67.0 million related to the P&C portfolio of Government and Government-Related holdings. Securities in a gross unrealized loss position had a fair value of $1.9 billion at December 31, 2014.

gross unrealized losses of $42.2 million related to the Corporate holdings within our P&C investments portfolio. Securities in a gross unrealized loss position had a fair value of $1.6 billion at December 31, 2014. Of the gross unrealized losses, $10.1 million relate to financial institutions.

gross unrealized losses of $18.2 million related to the P&C portfolio of Non-Agency RMBS portfolio (which consists of our holdings of sub-prime Non-Agency RMBS, second liens, asset backed securities collateralized debt obligations ("ABS CDOs") with sub-prime collateral, Alt-A and Prime RMBS). Securities in an unrealized loss position had a fair value of $252.2 million at December 31, 2014. The Company has incurred realized losses, consisting of charges for OTTI and realized losses from sales, of approximately $1.4 billion since the beginning of 2007 through December 31, 2014 on these asset classes.

The following table details the security type and length of time that AFS securities were in a continual gross unrealized loss position at December 31, 2014:

Security Type and Length of Time in a Continual Unrealized Loss Position (1)	December 31, 2014	
(U.S. dollars in thousands)	Amount of Unrealized Loss	Fair Value of Securities in an Unrealized Loss Position
Fixed Maturities and Short-Term Investments		
Less than 6 months	$(41,402)	$2,375,489
At least 6 months but less than 12 months	(20,370)	520,721
At least 12 months but less than 2 years	(45,712)	1,620,834
2 years and over	(79,862)	1,124,871
Total	$(187,346)	$5,641,915
Equities		

Less than 6 months	$(9,650)	$84,902
At least 6 months but less than 12 months	(16,580)	106,291
Total	$(26,230)	$191,193

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(1) Excludes Life Funds Withheld Assets.

The following is the maturity profile of the AFS fixed income securities that were in a continual gross unrealized loss position at December 31, 2014:

Maturity profile in years of AFS fixed income securities in a gross unrealized loss position (1)	December 31, 2014	
(U.S. dollars in thousands)	Amount of Unrealized Loss	Fair Value of Securities in an Unrealized Loss Position
Less than 1 year remaining	$(16,031)	$472,162
At least 1 year but less than 5 years remaining (2)	(64,848)	2,232,750
At least 5 years but less than 10 years remaining (2)	(28,120)	706,693
At least 10 years but less than 20 years remaining (2)	(6,220)	123,444
At least 20 years or more remaining (2)	(4,713)	99,273
RMBS – Agency	(10,783)	647,187
RMBS – Non-Agency	(18,155)	248,078
CMBS	(5,262)	247,421
CDO	(27,169)	664,319
Other asset-backed securities (2)	(6,045)	200,588
Total	$(187,346)	$5,641,915

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(1) Excludes Life Funds Withheld Assets.

(2) Includes medium term notes supported primarily by pools of European investment grade credit with varying degrees of leverage are allocated based on contractual maturity.

Factors considered in determining that additional OTTI charges were not warranted include management's consideration of current and near term liquidity needs along with other available sources of liquidity, and in certain instances an evaluation of the factors and time necessary for recovery. For further information, see Item 8, Note 6, "Investments," to the Consolidated Financial Statements included herein.

As noted in Item 8, Note 2, "Significant Accounting Policies," to the Consolidated Financial Statements included herein, the determination of the amount of OTTI varies by investment type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. We consider a wide range of factors about the securities and use our best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for near-term recovery. Inherent in our evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. We update our evaluations regularly and reflect additional impairments in net income as determinations are made. Our determination of the amount of the impairment taken on investments is highly subjective and could adversely impact our results of operations. There can be no assurance that we have accurately assessed the level of OTTI taken and reflected in our financial statements. Furthermore, additional impairments may need to be taken in the future. Historical trends may not be indicative of future impairments.

Levels of write down or OTTI are also impacted by our assessment of the intent to sell securities that have declined in value prior to recovery. If, due to changes in circumstances, we determine to reposition or realign portions of the portfolio and we determine not to hold certain securities in an unrealized loss position to recovery, we will incur OTTI charges, which could be significant. In addition, in our assessment of whether securities in a gross unrealized loss position are temporarily impaired, we consider the significance of the impairments.

At December 31, 2014, we had corporate securities with gross unrealized losses of $42.2 million. These securities included gross unrealized losses of $2.2 million, which had a fair value of $1.8 million and a cumulative fair value decline of greater than 50% of amortized cost.

At December 31, 2014, we had structured securities with gross unrealized losses of $18.2 million on non-Agency RMBS, $27.2 million on Core CDOs and $5.3 million on CMBS holdings. These securities included gross unrealized

losses of $9.6 million, which had a fair value of $5.5 million and a cumulative fair value decline of greater than 50% of amortized cost. All of these are mortgage and asset-backed securities. We have evaluated each of these securities in conjunction with our investment manager service providers and believe 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.

Refer to “Significant Items Affecting the Results of Operations” above for further discussion surrounding the impact of credit market movements on our investment portfolio.

European Sovereign Debt Crisis (Excluding Life Funds Withheld Assets)

As developed markets emerged from the global recession, several key nations within the European Union (the E.U.) - particularly Greece, Italy, Ireland, Portugal and Spain (the “European Periphery Nations") - have carried particularly high levels of debt and have been slower to return to positive economic growth due to austerity measures implemented to lower such countries' debt levels, and a general lack of competitiveness. The European Central Bank has taken various measures and has asserted its willingness to take any measures deemed necessary to protect these sovereigns' ability to continue to fund their debt. As a result, we believe market risks associated with the European Sovereign Debt crisis have been greatly reduced.

Our exposure to this European sovereign debt crisis is from direct investment in fixed maturity securities issued by national and local governments of the European Periphery Nations, as well as from fixed maturity securities issued by certain financial and non-financial corporate entities operating within the European Periphery Nations which currently have a fair value of $144.5 million at December 31, 2014. We continue to monitor our financial exposure to this crisis, and continually assess the impact of a potential default by any of the European Periphery Nations on their respective debt issuances, including the associated impact on non-sovereign entities in these five nations in the event of such a default.

We currently have no unfunded investment exposures or commitments to either sovereign or non-sovereign entities within the European Periphery Nations. We do invest in various alternative and private investment funds and medium term notes that from time to time may invest in securities or investments related to the European Periphery Nations. In general, such funds and medium term notes will invest in debt and/or equity securities of individual corporate issuers, securitized debt instruments and/or fixed maturity instruments issued by national governments of the European Periphery Nations. As market volatility in the European Periphery Nations has declined, we have observed that our alternative and private fund managers have increased their exposure to these countries. We estimate that, as of December 31, 2014, our aggregate exposure to European Periphery Nations via our fund investments and medium term notes did not exceed $150 million on a net basis. The exposure was diversified across issues and instruments and across the five European Periphery Nations.

In addition to the direct investment portfolio considerations discussed above, as an international (re)insurance company, European credit exposures may exist for us within unpaid losses and loss expenses recoverable and reinsurance balances receivable. For further details on these balances including the names of our most significant reinsurance counterparties, see Item 8, Note 10, “Reinsurance,” to the Consolidated Financial Statements included herein. Other sources of potential exposure to European credit issues may exist within certain lines of insurance or reinsurance business written (including but not limited to lines such as surety, business interruption, and political risk), or within underlying investments held in securitized financial instruments or in structured transactions in which we have an interest. We consider these potential exposures as part of our ongoing enterprise risk management processes.

Fair Value Measurements of Assets and Liabilities

As described in Item 8, Note 4, “Fair Value Measurements,” to the Consolidated Financial Statements included herein, we have provided required disclosures by level within the fair value hierarchy of the Company’s assets and liabilities that are carried at fair value. As defined in the hierarchy, those assets and liabilities categorized as Level 3 have valuations determined using unobservable inputs. Unobservable inputs may include an entity’s own assumptions about market participant assumptions, applied to a modeled valuation, however, this is not the case with respect to the Company’s Level 3 assets and liabilities. The vast majority of the assets and liabilities classified as Level 3 are made up of those securities for which the 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 obtained to support a Level 2 classification.

Controls over Valuation of Financial Instruments

We perform regular reviews of the prices received from our third party valuation sources to assess whether the prices represent a reasonable estimate of the fair value. This process is completed by investment and accounting personnel who are independent of those responsible for obtaining the valuations. The approaches we take 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, comparison 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 our external parties and valuations provided by our third party investment managers at a portfolio level.

In addition, we assess the effectiveness of valuation controls performed by external parties responsible for sourcing appropriate valuations from third parties on our 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. We obtain 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, we compare the broker quotes to independent valuations obtained from third party pricing vendors, which may also consist of broker quotes, to assess if the prices received represent a reasonable estimate of the fair value.

Valuation Methodology of Level 3 Assets and Liabilities

See Item 8, Note 4, “Fair Value Measurements,” of the Consolidated Financial Statements included herein, for a description of the valuation methodology utilized to value Level 3 assets and liabilities, how the valuation methodology is validated as well as further details associated with various assets classified as Level 3. At December 31, 2014, we did not have any liabilities that were carried at fair value based on Level 3 inputs other than derivative instruments in a liability position at December 31, 2014.

Fair Value of Level 3 Assets and Liabilities

At December 31, 2014, the fair value of total assets and liabilities carried at fair value, the fair value of Level 3 assets and liabilities and the percentage of Level 3 assets to our total assets and liabilities that are carried at fair value were as follows:

(U.S. dollars in thousands)	Total Assets and Liabilities Carried at Fair Value at December 31, 2014	Fair Value of Level 3 Assets and Liabilities	Level 3 Assets and Liabilities as a Percentage of Total Assets and Liabilities Carried at Fair Value, by Class	
Assets				
Fixed maturities, at fair value				
U.S. Government and Government Agency-Related/Supported	$2,171,953	$—	—	%
Corporate	8,778,373	5,894	0.1	%
RMBS – Agency	3,728,576	1,910	0.1	%
RMBS – Non-Agency	427,351	—	—	%
CMBS	1,052,544	—	—	%
CDO	692,034	687,958	99.4	%
Other asset-backed securities	1,065,293	5,288	0.5	%
U.S. States and political subdivisions of the States	2,021,272	—	—	%
Non-U.S. Sovereign Government, Supranational and Government-Related	4,240,073	—	—	%
Total Fixed maturities, at fair value	$24,177,469	$701,050	2.9	%
Equity securities, at fair value	868,292	—	—	%
Short-term investments, at fair value	256,727	—	—	%
Total investments available for sale	$25,302,488	$701,050	2.8	%
Cash equivalents (1)	1,501,832	—	—	%
Other investments (2)	894,057	185,083	20.7	%
Other assets (3)	135,963	13,663	10.0	%
Total assets carried at fair value	$27,834,340	$899,796	3.2	%
Liabilities				
Financial instruments sold, but not yet purchased (4)	$30,406	$—	—	%

Other liabilities (5)	30,488	23,427	76.8 %
Total liabilities carried at fair value	$60,894	$23,427	38.5 %

(1) Cash equivalents balances subject to fair value measurements include certificates of deposit and money market funds.

(2) The Other investments balances exclude certain structured transactions including certain investments in project finance transactions and a payment obligation (for further information, see Item 8, Note 8, "Other Investments," to the Consolidated Financial Statements included herein) that has provided liquidity financing to a structured credit vehicle as a part of a third party medium term note facility. These Other investments are carried at amortized cost, which totaled $354.4 million at December 31, 2014.

(3) Other assets include derivative instruments, reported on a gross basis.

(4) Financial instruments sold, but not yet purchased, are included within "Payable for investments purchased" on the balance sheets.

(5) Other liabilities include derivative instruments, reported on a gross basis.

At December 31, 2014, our Level 3 assets represented approximately 3.2% of assets that are measured at fair value and represented approximately 2% of total assets. Our Level 3 liabilities represented approximately 38.5% of liabilities that are measured at fair value but less than 1% of total liabilities at December 31, 2014.

Changes in the Fair Value of Level 3 Assets and Liabilities

See Item 8, Note 4, “Fair Value Measurements,” to the Consolidated Financial Statements included herein, for an analysis of the change in fair value of Level 3 Assets and Liabilities.

Unpaid Losses and Loss Expenses

We establish reserves to provide for estimated claims, the general expenses of administering the claims adjustment process and losses incurred but not reported. These reserves are calculated using actuarial and other reserving techniques to project the estimated ultimate net liability for losses and loss expenses. Our reserving practices and the establishment of any particular reserve reflect our judgment concerning sound financial practice and do not represent any admission of liability with respect to any claims made against us.

Gross unpaid losses and loss expenses totaled $19.4 billion and $20.5 billion at December 31, 2014 and 2013, respectively. The table below represents a reconciliation of our P&C unpaid losses and loss expenses for the year ended December 31, 2014:

(U.S. dollars in thousands)	Gross unpaid losses and loss expenses	Unpaid losses and loss expenses recoverable	Net unpaid losses and loss expenses
Balance at December 31, 2013	$20,481,065	$(3,414,735)	$17,066,330
Losses and loss expenses incurred	3,985,238	(726,843)	3,258,395
Losses and loss expenses paid/recovered	(4,499,644)	678,307	(3,821,337)
Foreign exchange and other	(613,416)	51,745	(561,671)
Balance at December 31, 2014	$19,353,243	$(3,411,526)	$15,941,717

While we regularly review the adequacy of established reserves for unpaid losses and loss expenses, no assurance can be given that actual claims made and payments related thereto will not be in excess of the amounts reserved. In the future, if such reserves develop adversely, such deficiency would have a negative impact on future results of operations. For further discussion, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates – 1) Unpaid Loss and Loss Expenses and Unpaid Loss and Loss Expenses Recoverable,” and Item 8, Note 11, “Losses and Loss Expenses,” to the Consolidated Financial Statements included herein.

Unpaid Losses and Loss Expenses Recoverable and Reinsurance Balances Receivable

In the normal course of business, we seek to reduce the potential amount of loss arising from claims events by reinsuring certain levels of risk assumed in various areas of exposure with other insurers or reinsurers. While reinsurance agreements are designed to limit our losses from large exposures and permit recovery of a portion of direct unpaid losses, reinsurance does not relieve our ultimate liability to the insureds. Accordingly, the losses and loss expense reserves on the balance sheets represent our total unpaid gross losses. Unpaid losses and loss expense recoverable relates to estimated reinsurance recoveries on the unpaid loss and loss expense reserves.

The table below presents our net paid and unpaid losses and loss expenses recoverable and reinsurance balances receivable as follows:

(U.S. dollars in thousands)	2014	2013
Reinsurance balances receivable	$153,613	$163,066
Reinsurance recoverable on future policy benefits (excluding balances related to the Life Retro Arrangements)	17,840	20,493
Reinsurance recoverable on unpaid losses and loss expenses	3,453,873	3,456,088
Bad debt reserve on unpaid losses and loss expenses recoverable and reinsurance balances receivable	(64,439)	(85,532)
Net paid and unpaid losses and loss expenses recoverable and reinsurance balances receivable	$3,560,887	$3,554,115

We have credit risk should any of our reinsurers be unable or unwilling to settle balances, net of collateral, due. The definition of collateral for this purpose requires some judgment and is generally limited to assets held in trust, letters of credit, and liabilities held by us with the same legal entity for which we believe there is a right of offset. We are the beneficiary of letters of credit, trust accounts and funds withheld in the aggregate amount of $2.0 billion and $1.8 billion at December 31, 2014 and 2013, respectively, collateralizing reinsurance recoverables with respect to certain reinsurers. The provision for

uncollectible reinsurance is required principally due to the failure of reinsurers to indemnify us primarily because of disputes under reinsurance contracts and insolvencies. At December 31, 2014 and 2013, we had a reserve for potential non-recoveries from reinsurers of $64.4 million and $85.5 million, respectively.

At December 31, 2014 and 2013, approximately 93% and 90%, respectively, of the total unpaid loss and loss expense recoverable and reinsurance balances receivable, net of collateral held, was due from reinsurers with a financial strength rating of “A” or better. The following is an analysis of the total recoverable and reinsurance balances receivable, net of collateral held, at December 31, 2014, by reinsurers owing 3% or more of such total:

Name of Reinsurer	Reinsurer Financial Strength Rating	% of Total	
Munich Reinsurance Co.	AA-/Stable	10.5	%
Swiss Reinsurance Co.	AA-/Stable	8.8	%
Transatlantic Reinsurance Co.	A+/Stable	8.1	%
Swiss Re Europe S.A.	AA-/Stable	7.7	%
Arch Reinsurance Co.	A+/Stable	6.3	%
Lloyd's Syndicates	A+/Stable	5.1	%
AXIS Reinsurance Co.	A+/Stable	4.6	%

The following table sets forth the ratings profile of the reinsurers that support the unpaid loss and loss expense recoverable and reinsurance balances receivable, net of collateral, at December 31, 2014:

Reinsurer Financial Strength Rating	% of Total	
AAA	0.1	%
AA	42.0	%
A	50.4	%
BBB	0.4	%
Captives	5.4	%
Other	1.7	%
Total	100.0	%

In addition, under the terms of the transaction as described in Item 8, Note 3, "Sale of Life Reinsurance Subsidiary," to the Consolidated Financial Statements included herein, the Company has reinsured $4.3 billion of its future policy benefit reserves. Based upon the contractual right of offset, future policy benefit reserves recoverable are netted against the funds withheld liability owing to GCLR. See Item 8, Note 14, “Funds Withheld on Life Retrocession Arrangements,” to the Consolidated Financial Statement included herein for further information.

Liquidity and Capital Resources

Liquidity is a measure of our ability to generate sufficient cash flows to meet the short and long-term cash requirements of our business operations. As a global insurance and reinsurance company, one of our principal responsibilities to clients is to ensure that we have ready access to funds with which to settle large or multiple unforeseen claims. We would generally expect that positive cash flow from operations (underwriting activities and investment income) will be sufficient to cover cash outflows under most future loss scenarios. However, there is a possibility that unforeseen demands could be placed on us due to extraordinary events and, as such, our liquidity needs may change. Such events include, among other things: several significant catastrophes occurring in a relatively short period of time resulting in material incurred losses; rating agency downgrades of our core insurance and reinsurance subsidiaries that would require posting of collateral in connection with our letter of credit and revolving credit facilities; return of unearned premiums and/or the settlement of derivative transactions and large scale uncollectible reinsurance recoverables on paid losses (as a result of coverage disputes, reinsurers' credit problems or decreases in the value of collateral supporting reinsurance recoverables). Any one or a combination of such events may cause a liquidity strain for us. In addition, a liquidity strain could also occur when there is illiquidity in financial markets, such as that which was experienced in 2008. Investments that may be used to meet liquidity needs in the event of a liquidity strain may not be liquid due to inactive markets, or may have to be sold at a significant loss as a

result of depressed prices. Because each subsidiary focuses on a more limited number of specific product lines than is collectively available from the consolidated group of companies, the mix of business tends to be less diverse at the subsidiary level. As a result, the probability of a liquidity strain, as described above, may be greater for individual subsidiaries than when liquidity is assessed on a consolidated basis. If such a liquidity strain were to occur in a subsidiary, XL-Ireland may be required to contribute capital to the particular subsidiary and/or curtail dividends from the subsidiary to support holding company operations, which may be difficult given that XL-Ireland is a holding company and has limited liquidity.

A downgrade below “A-” of our principal insurance and reinsurance subsidiaries by either S&P or A.M. Best, which is three notches below the current S&P financial strength rating of “A+” (Stable) and two notches below the A.M. Best financial strength rating of “A” (Stable) of these subsidiaries, may trigger cancelation provisions in a significant amount of our assumed reinsurance agreements and may potentially require us to return unearned premiums to cedants. In addition, due to collateral posting requirements under our letter of credit and revolving credit facilities, such a downgrade may require the posting of cash collateral in support of certain “in use” portions of these facilities. Specifically, a downgrade below “A-” by A.M. Best would constitute an event of default under our two largest credit facilities and may trigger such collateral requirements. In certain limited instances, such downgrades may require that we return cash or assets to counterparties or to settle derivative and/or other transactions with the respective counterparties. See Item 1A, “Risk Factors,” included herein.

Holding Company Liquidity

As holding companies, XL-Ireland and XL-Cayman have no operations of their own and their assets consist primarily of investments in subsidiaries. XL-Ireland's principal uses of liquidity are ordinary share-related transactions, including dividend payments to holders of its ordinary shares as well as share buybacks, capital investments in its subsidiaries and certain corporate operating expenses. XL-Cayman's principal uses of liquidity are preference share related transactions, including dividend payments to its preference shareholders as well as preference share buybacks from time to time, interest and principal payments on debt, dividends to XL-Ireland and certain corporate operating expenses. All of our outstanding debt securities were issued by XL-Cayman.

XL-Ireland's future cash flows largely depend on the availability of dividends or other permissible payments from subsidiaries to make principal and interest payments on debt, to pay operating expenses and ordinary shareholder dividends, to make capital investments in subsidiaries and to pay other obligations that may arise from time to time. The ability of our subsidiaries to pay dividends to us or return capital from shareholders' equity is limited by applicable laws and regulations of the various jurisdictions in which we operate, certain additional required regulatory approvals and financial covenants contained in our letters of credit and revolving credit facilities. The payment of dividends by our principal operating subsidiaries is regulated under the laws of various jurisdictions including Bermuda, the U.K., Ireland and Switzerland, certain insurance statutes of various states in the United States in which the principal operating subsidiaries are licensed to transact business, the other jurisdictions where we have regulated subsidiaries and regulations of the Society of Lloyd's. See Item 8, Note 25, “Statutory Financial Data,” to the Consolidated Financial Statements for further discussion and details regarding the dividend capacity of our major operating subsidiaries. See also Item 1A, “Risk Factors – Our holding company structure and certain regulatory and other constraints affect our ability to pay dividends, make payments on our debt securities and make other payments,” included herein. No assurance can be given that our subsidiaries will pay dividends in the future to XL-Ireland and XL-Cayman.

Under Irish law, share premium was required to be converted to “distributable reserves” for XL-Ireland to pay cash dividends and redeem and buyback shares following the redomestication transaction in which all of the ordinary shares of XL-Cayman were exchanged for all of the ordinary shares of XL-Ireland. On July 23, 2010, the Irish High Court approved XL-Ireland's conversion of share premium to $5.0 billion of distributable reserves, subject to the completion of certain formalities under Irish Company law. These formalities were completed in early August 2010. At December 31, 2014, XL-Ireland had $2.9 billion in distributable reserves.

At December 31, 2014, XL-Ireland and XL-Cayman held cash and investments, net of liabilities associated with cash sweeping arrangements, of $22.4 million and $0.9 billion, respectively, compared to $12.7 million and $1.6 billion, respectively, at December 31, 2013.

The ability of XL-Cayman, like that of XL-Ireland, to obtain funds from its subsidiaries to satisfy any of its debts, including obligations under guarantees, is subject to certain contractual restrictions, applicable laws and statutory requirements of the various countries in which we operate, including, among others, Bermuda, the United States, Ireland, Switzerland and the United Kingdom. For details of the required statutory capital and surplus for our principal operating subsidiaries, see Item 8, Note 25, “Statutory Financial Data,” to the Consolidated Financial Statements included herein.

See also the Consolidated Statements of Cash Flows in Item 8, Financial Statements included herein.

Sources of Liquidity

At December 31, 2014, on a consolidated basis we had cash and cash equivalents of approximately $2.5 billion as compared to approximately $1.8 billion at December 31, 2013. We have three main sources of cash flows – those provided by operations, investing activities and financing activities:

Total cash provided by (used in): (U.S. dollars in thousands)	2014	2013	2012
Operating activities	$963,184	$779,977	$1,056,106
Investing activities	$1,711,621	$(1,197,862)	$(942,593)
Financing activities	$(1,863,708)	$(394,843)	$(1,344,753)
Effects of exchange rate changes on foreign currency cash	$(90,115)	$(4,818)	$24,493

Operating Cash Flows

Historically, cash receipts from operations that are typically derived from the receipt of investment income on our investment portfolio as well as the net receipt of premiums less claims and expenses related to our underwriting activities have generally provided sufficient funds to pay losses as well as operating expenses of our subsidiaries and to fund dividends payable by our subsidiaries to XL-Ireland. Cash receipts from operations are generally derived from the receipt of investment income on our investment portfolio as well as the net receipt of premiums less claims and expenses related to our underwriting activities in our P&C and Run-Off Life Operations. Our operating subsidiaries provide liquidity in that premiums are generally received months or even years before losses are paid under the policies related to such premiums. Premiums and acquisition expenses are settled based on terms of trade as stipulated by an underwriting contract, and generally are received within the first year of inception of a policy when the premium is written, but can be up to three years on certain reinsurance business assumed. Operating expenses are generally paid within a year of being incurred. Claims, especially for casualty business, may take a much longer time before they are reported and ultimately settled, requiring the establishment of reserves for unpaid losses and loss expenses. Therefore, the amount of claims paid in any one year is not necessarily related to the amount of net losses incurred, as reported in the consolidated statement of income.

During the year ended December 31, 2014, net cash flows provided by operating activities were $1.0 billion compared to net cash flows provided by operating activities of $0.8 billion for the same period in 2013. Although net income was lower during the year ended December 31, 2014, that decrease was more than offset by increases in other components of non-cash working capital resulting in higher net cash flows from operating activities for 2013.

Investing Cash Flows

Generally, positive cash flow from operations and financing activities is invested in our investment portfolio, including affiliates or the acquisition of subsidiaries.

Net cash provided by investing activities was $1.7 billion in the year ended December 31, 2014 compared to net cash used of $1.2 billion for the same period in 2013. These cash flows were associated with the normal purchase and sale of portfolio investments. As further outlined in Item 8, Note 3, “Sale of Life Reinsurance Subsidiary,” to the Consolidated Financial Statements included herein, the Company received sale proceeds of $570 million in cash during the year ended December 31, 2014.

Certain of our invested assets are held in trust and pledged in support of insurance and reinsurance liabilities as well as credit facilities. Such pledges are largely required by our 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, certain deposit liabilities and annuity contracts require the use of pledged assets. As further outlined in Item 8, Note 6, “Investments – Pledged Assets,” to the Consolidated Financial Statements included herein, certain assets of the investment portfolio are pledged as collateral under our letter of credit facilities. At December 31, 2014 and 2013, we had $15.2 billion and $15.5 billion in pledged assets, respectively.

Financing Cash Flows

Cash flows related to financing activities include ordinary and preference share related transactions, the payment of dividends, the issue or repayment of preference ordinary shares, the issue or repayment of debt and deposit liability transactions. During the year ended December 31, 2014, net cash flows used in financing activities were $1.9 billion compared to net cash used of $0.4 billion for the same period in 2013. During the years ended December 31, 2014 and

2013, financing cash flows were predominantly impacted by the repayment of debt in 2014, the issuance of debt in 2013, and share buybacks and the repayment of deposit liabilities in both years. For more information regarding our share buyback programs and debt activity during the years ended December 31, 2014 and 2013, see "Other Key Focuses of Management - Capital Management" included herein. The cash outflows associated with the repayment of deposit liabilities were primarily from a negotiated

termination of one of our larger structured indemnity contracts, during the second quarter of 2014, together with normal course cashflows from the remaining deposit accounted transactions.
In addition, we maintain credit facilities that provide liquidity. Details of these facilities are described below in “Capital Resources.”

Capital Resources
At December 31, 2014 and 2013, we had total shareholders’ equity of $11.4 billion and $11.3 billion, respectively. In addition to ordinary share capital, we depend on external sources of financing to support our underwriting activities in the form of:
a. debt;
b. preference shares;
c. letter of credit facilities and other sources of collateral; and
d. revolving credit facilities.
In particular, we require, among other things:
sufficient capital to maintain our financial strength and credit ratings, as issued by several ratings agencies, at levels considered necessary by management to enable our key operating subsidiaries to compete;
sufficient capital to enable our regulated subsidiaries to meet the regulatory capital levels required in the United States, the U.K., Bermuda, Ireland, Switzerland and other key markets;
letters of credit and other forms of collateral that are required to be posted or deposited, as the case may be, by our 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. We also use letters of credit to support our operations at Lloyd's; and
revolving credit facilities to meet short-term liquidity needs.
The following risks are associated with our requirement to renew or obtain new credit facilities:
the credit available from banks may be reduced due to market conditions resulting in our need to pledge our investment portfolio to customers, which could result in a lower investment yield;
we may be downgraded by one or more rating agencies, which could materially and negatively impact our business, financial condition, results of operations and/or liquidity; and
the volume of business that our subsidiaries that are not admitted in the United States are able to transact could be reduced if we are unable to obtain letter of credit facilities at an appropriate amount.
Consolidation within the banking industry may result in the aggregate amount of credit provided to us being reduced. We attempt to mitigate this risk by identifying and/or selecting additional banks that can participate in the credit facilities upon renewal. See Item 1A, “Risk Factors.”
The following table summarizes the components of our current capital resources as follows:

(U.S. dollars in thousands)	2014	2013
Non-controlling interests - Series D preference ordinary shares in XL-Cayman	$345,000	$345,000
Non-controlling interests - Series E preference ordinary shares in XL-Cayman	999,500	999,500
Non-controlling interests - Other	57,515	7,165
Ordinary share capital	10,033,752	9,997,633
Total ordinary shares and non-controlling interests	$11,435,767	$11,349,298
Notes payable and debt	1,662,580	2,260,436
Total	$13,098,347	$13,609,734

Ordinary Share Capital

The following table reconciles the opening and closing ordinary share capital positions as follows:

(U.S. dollars in thousands)	2014	2013
Ordinary shareholders' equity – beginning of period	$9,997,633	$10,510,077
Net income (loss) attributable to ordinary shareholders	188,340	1,059,916
Share buybacks	(801,953)	(675,616)
Share issues	6,406	12,665
Ordinary share dividends	(172,080)	(162,043)
Change in accumulated other comprehensive income	747,801	(783,363)
Share based compensation and other	67,605	35,997
Ordinary shareholders' equity – end of period	$10,033,752	$9,997,633

Debt

The following tables present our debt under outstanding securities and lenders' commitments at December 31, 2014:

(U.S. dollars in thousands)	Commitment/ Debt	In Use/ Outstanding	Year of Expiry	Payments Due by Period			
				Less than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years
5-year revolver	$1,000,000	$—	2018	$—	$—	$—	$—
2.30% Senior Notes	300,000	297,344	2018	—	—	300,000	—
5.75% Senior Notes	400,000	397,092	2021	—	—	—	400,000
6.375% Senior Notes	350,000	348,920	2024	—	—	—	350,000
6.25% Senior Notes	325,000	323,062	2027	—	—	—	325,000
5.25% Senior Notes	300,000	296,162	2043	—	—	—	300,000
Total	$2,675,000	$1,662,580		$—	$—	$300,000	$1,375,000

"In Use/Outstanding" data represent December 31, 2014 accreted values. "Payments Due by Period" data represents ultimate redemption values.

In addition, see Item 8, Note 15, "Notes Payable and Debt and Financing Arrangements," to the Consolidated Financial Statements included herein for further information.

At December 31, 2014, banks and investors provided us with $2.7 billion of debt capacity, of which $1.7 billion was utilized. This debt capacity consists of:

a revolving credit facility of $1.0 billion; and

senior unsecured notes of approximately $1.7 billion issued by XL-Cayman. These notes require XL-Cayman to pay a fixed rate of interest during their terms. At December 31, 2014, there were five outstanding issues of senior unsecured notes:

$300 million senior notes due December 2018, with a fixed coupon of 2.30%. The security is publicly traded. The notes were issued at 99.69% and net proceeds were $296.6 million. Related expenses of the offering amounted to $2.5 million.

$400 million senior notes due October 2021, with a fixed coupon of 5.75%. The security is publicly traded. The notes were issued at 100.0% and net proceeds were $395.7 million. Related expenses of the offering amounted to $4.3 million.

$350 million senior notes due November 2024, with a fixed coupon of 6.375%. The security is publicly traded. The notes were issued at 100.0% and net proceeds were $347.8 million. Related expenses of the offering amounted to $2.2 million.

$325 million of senior notes due May 2027, with a fixed coupon of 6.25%. The security is publicly traded. The notes were issued at 99.805% and net proceeds were $321.9 million. Related expenses of the offering amounted to $2.5 million.

$300 million senior notes due December 2043, with a fixed coupon of 5.25%. The security is publicly traded. The notes were issued at 99.77% and net proceeds were $296.0 million. Related expenses of the offering amounted to $3.3 million.

At December 31, 2014, $575 million of letters of credit were issued under the 2013 Citi Agreements (as defined below) and therefore this facility is not available for revolving credit loans.

Preferred Shares - Non-controlling Interest in Equity of Consolidated Subsidiaries

The Series D preference ordinary shares and the Series E preference ordinary shares were issued by XL-Cayman. Accordingly, these instruments represent non-controlling interests in our consolidated financial statements and are presented as non-controlling interest in equity of consolidated subsidiaries. At December 31, 2014 and 2013, the face values of the outstanding Series D and Series E preference ordinary shares were $345.0 million and $999.5 million, respectively.

Letter of Credit Facilities and other sources of collateral

At December 31, 2014, we had eight letter of credit ("LOC") facilities in place with total availability of $3.6 billion, of which $1.8 billion was utilized.

				Amount of Commitment Expiration by Period			
(U.S. dollars in thousands)	Commitment/ Debt	In Use/ Outstanding	Year of Expiry	Less than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years
LOC Facility (1) (2)	$ 1,000,000	$31,087	2018	$—	$—	$1,000,000	$—
LOC Facility (2)	1,000,000	772,681	2018	—	—	1,000,000	—
LOC Facility	600,000	278,789	Continuous	—	—	—	600,000
LOC Facility	250,000	133,004	Continuous	—	—	—	250,000
LOC Facility (3)	275,000	275,000	2015	275,000	—	—	—
LOC Facility (3)	200,000	200,000	2015	200,000	—	—	—
LOC Facility (3)	100,000	100,000	2016	—	100,000	—	—
LOC Facility	150,000	—	Continuous	—	—	—	150,000
Total LOC facilities	$ 3,575,000	$1,790,561		$475,000	$100,000	$2,000,000	$1,000,000

(1) This letter of credit facility includes $1.0 billion that is also included in the "5-year revolver" listed under Debt. See the discussion regarding the Syndicated Credit Agreements (defined below).

(2) We have the option to increase the size of the facilities under the Syndicated Credit Agreements by an additional $500 million across both such facilities.

(3) We have the option to increase the maximum amount of letters of credit and revolving credit loans available under the 2013 Citi Agreements, with the lender's and issuing lender's consent.

In November 2013, we (i) entered into two new credit agreements (together, the "Syndicated Credit Agreements"), which provided for an aggregate amount of outstanding letters of credit and revolving credit loans of up to $2 billion, subject to certain options to increase the size of the facilities, and (ii) terminated the secured credit agreements dated March 25, 2011 and December 9, 2011, and the unsecured credit agreement dated December 9, 2011, which had provided for an aggregate amount of outstanding letters of credit and revolving credit loans of up to $3 billion.

The Syndicated Credit Agreements consist of (i) a secured credit agreement, which provides for the issuance of up to $1 billion of letters of credit and (ii) an unsecured credit agreement, which provides for the issuance of up to $1 billion of letters of credit and revolving credit loans. We have the option to increase the maximum amount of letters of credit available by an additional $500 million across the facilities under the Syndicated Credit Agreements.

The commitments under the Syndicated Credit Agreements expire on, and such credit facilities are available until, the earlier of (i) November 22, 2018 and (ii) the date of termination in whole of the commitments upon an optional termination or reduction of the commitments by the account parties or upon the occurrence of certain events of default.

The availability of letters of credit under the secured portion of the Syndicated Credit Agreements is subject to a borrowing base requirement, determined on the basis of specified percentages of the face value of eligible categories

of assets varying by type of collateral. In the event that such credit support is insufficient, we could be required to provide alternative security to cedants. This could take the form of insurance trusts supported by our investment portfolio or funds withheld (amounts retained by ceding companies to collateralize loss or premium reserves) using our cash resources or combinations thereof. The face amount of letters of credit required is driven by, among other things, loss development of existing reserves, the payment pattern of such reserves, the expansion of business written by us and the loss experience of such business.

On May 7, 2013, XL-Cayman entered into a new credit agreement with Citicorp USA, Inc., as administrative agent and issuing lender, and the lenders party thereto, and a continuing agreement for standby letters of credit with Citibank, N.A. On May 13, 2013 and May 15, 2013, XL-Cayman entered into a first amendment and a second amendment, respectively, to such credit agreement (as amended, the "May 2013 Credit Agreement").

On August 6, 2013, XL-Cayman entered into a new credit agreement with Citicorp USA, Inc., as administrative agent and issuing lender, and the lenders party thereto and a continuing agreement for standby letters of credit with Citibank, N.A. On September 12, 2013, XL-Cayman entered into a first amendment to such credit agreement (as amended, the “August 2013 Credit Agreement”).
Additionally, on November 4, 2013, XL-Cayman entered into a new credit agreement with Citicorp USA, Inc., as administrative agent and issuing lender, and the lenders party thereto and a continuing agreement for standby letters of credit with Citibank, N.A. (the "November 2013 Credit Agreement" and, together with the May 2013 Credit Agreement and the August 2013 Credit Agreement, the "2013 Citi Agreements").
Collectively, the 2013 Citi Agreements and the continuing agreements for standby letters of credit provide for issuance of letters of credit and revolving credit loans in an aggregate amount of up to $575 million. XL-Cayman has the option to increase the maximum amount of letters of credit and revolving credit loans available under the 2013 Citi Agreements with the lender's and issuing lender's consent.
The commitments under the 2013 Citi Agreements expire on, and such credit facilities are available until, the earlier of (i) June 20, 2015 (with respect to the May 2013 Credit Agreement), September 20, 2015 (with respect to the August 2013 Credit Agreement) and December 20, 2016 (with respect to the November 2013 Credit Agreement) and (ii) the date of termination in whole of the commitments upon an optional termination or reduction of the commitments by the account parties or upon the occurrence of certain events of default.
On December 30, 2014, we reduced the commitments available under a continuous letter of credit facility between XL Insurance (Bermuda) Ltd. and Citibank Europe plc from $750 million to $600 million simultaneous with XL Insurance (Bermuda) Ltd. entering into a continuous $150 million letter of credit facility with ING Bank N.V., London Branch.
In addition to letters of credit, we have established insurance trusts in the United States that provide cedants with statutory credit for reinsurance under state insurance regulation in the United States.
We review current and projected collateral requirements on a regular basis, as well as new sources of collateral. Our objective is to maintain an excess amount of collateral sources over expected uses. We also review our liquidity needs on a regular basis.
Covenants
Our Credit Facilities contain a number of financial covenants that must be met and maintained and that, among other things, could restrict, subject to certain exceptions, our financial flexibility including the ability to:
engage in mergers or consolidations;
dispose of assets outside of the ordinary course of business;
create liens on assets; and
engage in certain transactions with affiliates.
The following outlines the covenant requirements and actual amounts as of December 31, 2014:

	Covenant Requirement	Actual Ratio or Balance	Margin of Compliance at December 31, 2014
Ratio of Total Funded Debt to Total Capitalization (1)	Less than 0.35 : 100	0.14 : 1.00	$2.4 billion
Maximum Secured Indebtedness (2)	Less than 20% of consolidated net worth	Nil	$2.0 billion
Consolidated Net Worth (3)	$6.8 billion	$10.0 billion	$3.2 billion
Financial Strength Ratings (4)	A– or better from A.M. Best	A (Stable)	Two notches

(1) The ratio of total funded debt to total capitalization must not be greater than 0.35:1.00. This ratio is defined as total funded debt to the sum of total funded debt plus consolidated net worth.
(2) Secured indebtedness excludes secured letter of credit facilities as permitted under the schedules to the credit facilities. At December 31, 2014, such secured letter of credit facilities amounted to $1.19 billion.

(3) Consolidated net worth means, at any time, our consolidated shareholders' equity excluding (a) the effect of any adjustments required under the authoritative accounting guidance for accounting for certain investments in debt and equity securities; and (b) any exempt indebtedness (and the assets relating thereto) in the event such exempt indebtedness is consolidated on our consolidated balance sheet.

(4) Covenants require that none of XL Insurance (Bermuda) Ltd, XL Re Ltd or XL Re Europe SE has a financial strength rating of less than "A –" from A.M. Best. At December 31, 2014, we were in compliance with such covenants.

As noted in the table above, at December 31, 2014, we were in compliance with all covenants by significant margins, and we currently remain in compliance.

Subsequent Events

Catlin Acquisition

On January 9, 2015, we entered into the Implementation Agreement with Catlin and Green Holdings, a direct, wholly-owned subsidiary of XL-Ireland. Under the terms of the Acquisition, Catlin shareholders will be entitled to receive 388 pence in cash and 0.130 ordinary shares of XL-Ireland, in exchange for each Catlin Share, subject to the proration and adjustment mechanisms set forth in the Implementation Agreement. On the basis of the closing price of an ordinary share of XL-Ireland on January 8, 2015 of $35.42, the Acquisition values Catlin at 693 pence per Catlin Share, representing a transaction equity value of approximately $4.1 billion. For further information on the Acquisition, see the Company's Report on Form 8-K filed with the SEC on January 9, 2015 under Items 1.01, 2.03, 3.02, 8.01 and 9.01.

On January 9, in connection with the Acquisition, XL-Cayman, as borrower, XL-Ireland, X.L. America, Inc., XLIB, XL Re Ltd, and XL Life Ltd, as guarantors, Morgan Stanley Senior Funding, Inc., as administrative agent, and the lenders party thereto entered into a senior unsecured 364-Day Bridge Loan Agreement providing for a £1.6 billion Bridge Facility. The proceeds of the Bridge Facility may be used to finance the payment of the cash consideration in connection with the Acquisition and to pay fees and expenses related thereto. For further information on the Bridge Facility, see the Company's Report on Form 8-K filed with the SEC on January 9, 2015 under Items 1.01, 2.03, 3.02, 8.01 and 9.01.

Sale of Strategic Operating Affiliate

On December 15, 2014, XL Re Ltd, an indirect wholly-owned subsidiary of the Company, and other shareholders of our affiliate, ARX entered into a Stock Purchase Agreement with Progressive to sell all of its shares in ARX to Progressive. XL Re's shares in ARX represented approximately 40% of ARX's outstanding capital stock on a fully diluted basis at the time of the announcement. At December 31, 2014, the recorded value of XL Re's shares in ARX of $204.4 million was included within Investments in Affiliates.

The transaction is expected to close in the second quarter of 2015 and is subject to regulatory approvals and satisfaction of other closing conditions. XL Re anticipates proceeds of approximately $500 million related to the sale, which will be based upon the consolidated tangible net book value of ARX and its subsidiaries as of December 31, 2014, and certain other factors.

Cross-Default And Other Provisions In Debt Instruments

The following describes certain terms of the documents referred to above. All such documents have been filed with the SEC and should be referred to for an assessment of our complete contractual obligations.

In general, all of our bank facilities, indentures and other documents relating to our outstanding indebtedness, including the credit facilities discussed above (collectively, the “Debt Documents”), contain cross acceleration or cross default provisions to each other and the Debt Documents contain affirmative covenants. These covenants provide for, among other things, a maximum ratio of total consolidated debt to the sum of total consolidated debt plus consolidated net worth, and that specified operating subsidiaries maintain a financial strength rating of no less than “A-” from A.M. Best. In addition, the Debt Documents contain other customary affirmative and negative covenants as well as certain customary events of default. Generally each of the Debt Documents provides for an event of default in the event of a change of control of the Company or certain events involving bankruptcy, insolvency or reorganization of the Company.

A downgrade below “A –” of our principal insurance and reinsurance subsidiaries by either S&P or A.M. Best, which is three notches below the current S&P financial strength rating of “A+” (Stable) and two notches below the A.M. Best financial strength rating of “A” (Stable) of these subsidiaries, may trigger cancelation provisions in a significant amount of our assumed reinsurance agreements and may potentially require us to return unearned premiums to cedants. In addition, due to collateral posting requirements under our letter of credit and revolving credit facilities, such a downgrade may require the posting of cash collateral in support of certain “in use” portions of these facilities (see

"Liquidity and Capital Resources"). In certain limited instances, such downgrades may require us to return cash or assets to counterparties or to settle derivative and/or other transactions with the respective counterparties. See Item 1A, "Risk Factors – A downgrade or potential downgrade in our financial strength and credit ratings by one or more rating agencies could materially and negatively impact our business, financial condition, results of operations and/or cashflows."

Under the Syndicated Credit Agreements, in the event that XL Insurance (Bermuda) Ltd, XL Re Ltd or XL Re Europe SE fails to maintain a financial strength rating of at least "A –" from A.M. Best, an event of default would occur. Given that all of the Debt Documents contain cross acceleration or cross default provisions, this may result in all holders declaring such debt due and payable and an acceleration of all debt due under those documents. If this were to occur, we may not have funds sufficient at that time to repay any or all of such indebtedness.

Long-Term Contractual Obligations

The following table presents our long term contractual obligations and related payments at December 31, 2014, due by period. This table excludes further commitments of $220.1 million related to our investment funds and certain limited partnerships, and in use letter of credit facilities of $1.8 billion. See Item 8, Note 16, "Derivative Instruments," Note 19, "Commitments and Contingencies," and Note 15, "Notes Payable and Debt and Financing Arrangements," to the Consolidated Financial Statements included herein, for further information.

Contractual Obligations (U.S. dollars in thousands)	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Long-term debt obligations	$1,675,000	$—	$—	$300,000	$1,375,000
Interest on long-term debt	1,134,710	89,295	178,590	171,032	695,793
Operating lease obligations	183,740	36,588	68,976	54,089	24,087
Capital lease obligations	75,377	11,800	24,493	25,733	13,351
Deposit liabilities (1)	1,862,358	186,916	172,576	191,576	1,311,290
Future policy benefits (2)	6,299,783	381,872	742,792	719,662	4,455,457
Unpaid losses and loss expenses – P&C (3)	19,691,422	4,669,073	5,891,641	3,270,233	5,860,475
Total	$30,922,390	$5,375,544	$7,079,068	$4,732,325	$13,735,453

(1) Deposit liabilities were $1.2 billion on our Consolidated Balance Sheet at December 31, 2014. The difference from the amount included above relates to the discount on payments due in the future. The payment related to these liabilities varies primarily based on interest rates. The ultimate payments associated with these liabilities could differ from our estimate. See Item 8, Note 12, "Deposit Liabilities," to the Consolidated Financial Statements included herein, for further information.

(2) Future policy benefit reserves related to Life operations were $4.7 billion on our Consolidated Balance Sheet at December 31, 2014. Amounts reflected above include an allowance for future premiums in respect of contracts under which premiums are payable throughout the life of the underlying policy. The value of the discount is also included for those lines of business that have reserves where future claim payments and future premium receipts can be estimated using actuarial principles. The timing and amounts of actual claims payments and premium receipts related to these reserves vary based on the underlying experience of the portfolio. Typical elements of the experience include mortality, morbidity and persistency. The ultimate amount of the claims payments and premium receipts could differ materially from our estimated amounts.

(3) The unpaid loss and loss expenses were $19.4 billion on our Consolidated Balance Sheet at December 31, 2014. The difference from the amount included above relates to the discount on payments due in the future for certain workers compensation lines and certain U.K. motor liability claims. The timing and amounts of actual claims payments related to these P&C reserves vary based on many factors including large individual losses, changes in the legal environment, as well as general market conditions. The ultimate amount of the claims payments could differ materially from our estimated amounts. For information regarding the estimates for unpaid loss and loss expenses as well as factors affecting potential payment patterns of reserves for actual and potential claims related to our different lines of business, see "Critical Accounting Policies and Estimates" above. Certain lines of business written by us, such as excess casualty, have loss experience characterized as low frequency and high severity. This may result in significant variability in loss payment patterns and, therefore, may impact the related asset/liability investment management process. In order to be in a position, if necessary, to make these payments, our liquidity

requirements are supported by having revolving lines of credit facilities available to us and significant reinsurance programs, in addition to our general high grade fixed income investment portfolio.

Variable Interest Entities ("VIEs") and Other Off-Balance Sheet Arrangements

At times, we have utilized VIEs both indirectly and directly in the ordinary course of our business as a means of accessing contingent capital. We have utilized unconsolidated entities in the formation of contingent capital facilities. See Item 8, Note 18, "Variable Interest Entities," to the Consolidated Financial Statements included herein, for further discussion.

Recent Accounting Pronouncements

See Item 8, Note 2, "Significant Accounting Policies," to the Consolidated Financial Statements included herein, for a discussion of recent accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

The following risk management discussion and the estimated amounts generated from the sensitivity and value-at-risk ("VaR") analyses presented in this document are forward-looking statements of market risk assuming certain adverse market conditions occur. Actual results in the future may differ materially from these estimated results due to, among other things, actual developments in the global financial markets and changes in the composition of our investment portfolio. The results of the analysis used by us to assess and mitigate risk should not be considered projections of future events of losses. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Cautionary Note Regarding Forward-Looking Statements."

As described in Item 8, Note 3, "Sale of Life Reinsurance Subsidiary," and Note 6, "Investments," to the Consolidated Financial Statements included herein, in connection with the Life Retro Arrangements, certain fixed maturities were reclassified from held to maturity to available for sale. All of the reclassified securities are included within the Life Funds Withheld Assets, along with certain other available for sale securities as defined in the sale and purchase agreement. 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 we no longer share in the risks and rewards of the underlying performance of the supporting invested assets, quantitative and qualitative disclosures about market risk exclude the Life Funds Withheld Assets.

Market risk represents the potential for loss due to adverse changes in the fair value of financial and other instruments. We are principally exposed to the following market risks: interest rate risk, foreign currency exchange rate risk, credit risk, equity price risk and other related market risks.

The majority of our market risk arises from the investment portfolio, which consists of fixed income securities, alternative investments, public equities, private investments, derivatives, other investments and cash, denominated in both U.S. and foreign currencies, which are sensitive to changes in interest rates, credit spreads, equity prices, foreign currency exchange rates and other related market risks. Our fixed income and equity securities are generally classified as available for sale, and, as such, changes in interest rates, credit spreads on corporate and structured securities, equity prices, foreign currency exchange rates or other related market instruments will have an immediate effect on comprehensive income and shareholders' equity but will not ordinarily have an immediate effect on net income. Nevertheless, changes in interest rates, credit spreads and defaults, equity prices and other related market instruments affect consolidated net income when, and if, a security is sold or impaired.

We may enter into derivatives to reduce risk or enhance portfolio efficiency. For example, we may use derivatives to hedge foreign exchange and interest rate risk related to our consolidated net exposures or to efficiently gain exposure to investments that are eligible under our Investment Policy. From time to time, we may also use instruments such as futures, options, interest rate swaps, credit default swaps and foreign currency forward contracts to manage the risk of interest rate changes, credit deterioration, foreign currency exposures, and other market related exposures as well as to obtain exposure to a particular financial market. We seek to manage the risks associated with the use of derivatives through our comprehensive framework of investment decision authorities ("Authorities Framework"). Derivative instruments are carried at fair value with the resulting changes in fair value recognized in income in the period in which they occur. For further information, see Item 8, Note 16, "Derivative Instruments," to the Consolidated Financial Statements included herein.

Interest Rate Risk (Excluding Life Funds Withheld Assets)

Interest rate risk is the price sensitivity of a fixed income security to changes in interest rates. Our fixed income portfolio is exposed to interest rate risk. Our liabilities are accrued at a static rate from an accounting standpoint. However, management considers the liabilities to have an economic exposure to interest rate risk and manages the net economic exposure to interest rate risk considering both assets and liabilities. Interest rate risk is managed within the context of our Strategic Asset Allocation ("SAA") process by specifying a SAA benchmark relative to the estimated duration of our liabilities and managing the fixed income portfolio relative to the benchmarks such that the overall economic effect of interest rate risk is within management's risk tolerance. Nevertheless, we remain exposed to interest rate risk with respect to our overall net asset position and more generally from an accounting standpoint since

the assets are carried at fair value, while liabilities are accrued at a static rate. We may utilize derivative instruments via an interest rate overlay strategy to manage or optimize our duration and curve exposures.

In addition, while our debt is not carried at fair value and not adjusted for market changes, changes in market interest rates could have an impact on debt values at the time of any refinancing.

At December 31, 2014 and 2013, bond index futures outstanding had a net long position of $410.2 million and a net short position of $8.5 million, respectively, and stock index futures outstanding had net long positions of $3.8 million and $27.3

million, respectively. We may reduce our exposure to these futures through offsetting transactions, including options and forwards.

Foreign Currency Exchange Rate Risk (Excluding Life Funds Withheld Assets)

Many of our non-U.S. subsidiaries maintain both assets and liabilities in local currencies; therefore, foreign exchange risk is generally limited to net assets denominated in foreign currencies.

Foreign currency exchange rate gains and losses in our consolidated Statements of Income arise for accounting purposes when net assets or liabilities are denominated in foreign currencies that differ from the functional currency of those subsidiaries. While unrealized foreign exchange gains and losses on underwriting balances are reported in earnings, the offsetting unrealized gains and losses on invested assets are recorded as a separate component of shareholders' equity, to the extent that the asset currency does not match that entity's functional currency. This results in an accounting mismatch that will result in foreign exchange gains or losses in the consolidated statements of income depending on the movement in certain currencies. We have formed several branches with Euro and U.K. sterling functional currencies and continue to focus on attempting to limit exposure to foreign exchange risk.

Foreign currency exchange rate risk in general is reviewed as part of our risk management framework. Within the asset liability framework for the investment portfolio, we pursue a general policy of holding the assets and liabilities in the same currency and, as such, we are not generally exposed to the risks associated with foreign exchange movements within the investment portfolio, as currency impacts on the assets are generally matched by corresponding impacts on the related liabilities. However, locally-required capital levels are invested in local currencies in order to satisfy regulatory requirements and to support local insurance operations and are not matched by related liabilities.

Foreign exchange contracts within the investment portfolio may be utilized to manage individual portfolio foreign exchange exposures, subject to investment management service providers' guidelines established by management. Where these contracts are not designated as specific hedges for financial reporting purposes, we record realized and unrealized gains and losses in income in the period in which they occur. These contracts generally have maturities of three months or less. We may also attempt to manage the foreign exchange volatility arising on certain transactions denominated in foreign currencies. These include, but are not limited to, premiums receivable, reinsurance contracts, claims payable and investments in subsidiaries.

The principal currencies creating our foreign exchange risk are the U.K. sterling, the Euro, the Swiss franc and the Canadian dollar. The following table provides more information on our net exposures to these principal foreign currencies at December 31, 2014 and 2013:

(Foreign Currency in Millions)	2014	2013
Euro	129.7	88.7
U.K. Sterling	139.4	47.3
Swiss Franc	155.7	107.9
Canadian Dollar	190.4	133.8

Subsequent Events

On January 9, 2015, the Company entered into contingent deliverable foreign exchange forward contracts with Morgan Stanley Capital Services LLC and Goldman Sachs International. The purpose of these is to mitigate risk of foreign currency exposure related to the pending Acquisition, and in general these transactions will terminate without any payments due by any of the parties if the Acquisition does not close on or before October 9, 2015.

Credit Risk (Excluding Life Funds Withheld Assets)

Credit risk relates to the uncertainty of an obligor's continued ability to make timely payments in accordance with the contractual terms of the instrument or contract. We are exposed to direct credit risk within our investment portfolio, through general counterparties, including customers and reinsurers, and through certain underwriting activities that include, but are not limited to, surety, workers' compensation, environmental and political risk and trade credit.

We have an established credit risk governance process delegated to the Credit Subcommittee of the Enterprise Risk Management Committee. The governance process is designed to ensure that transactions and activities, individually and in the aggregate, are carried out within established risk tolerances. This process also recognizes the potential for clash event risk (which covers a number of substantially similar claims against multiple policyholders) that could arise from credit events owing to the identified credit risk embedded in certain underwriting businesses, as well as our

investment activities and reinsurance relationships. In particular, certain of our underwriting activities expose us to indirect credit risk in that profitability of certain strategies can correlate with credit events at the issuer, industry or country level. We manage these risks through established underwriting policies that operate in accordance with established limit and escalation frameworks.

To manage our exposure to credit risk, we have established a credit risk framework that establishes tolerances for credit risk at various levels of granularity (counterparty, industry, country and underwriting business) and tolerances for credit risk arising from certain clash events. Credit risk capacity is allocated across our businesses and functional areas and regular reporting and aggregation activities are carried out to ensure compliance with our credit risk framework and related tolerances. Credit risk arising from credit sensitive underwriting activities is also managed via our underwriting limit framework. We manage credit risk within the investment portfolio through our Authorities Framework and established investment credit policies, which address the quality of obligors and counterparties, industry limits, and diversification requirements. Our exposure to market credit spreads primarily relates to market price and cash flow variability associated with changes in credit spreads.

Credit Risk – Investment Portfolio (Excluding Life Funds Withheld Assets)

Credit risk in the investment portfolio is the exposure to adverse changes in the creditworthiness of individual investment holdings, issuers, groups of issuers, industries and countries. A widening of credit spreads will increase the net unrealized loss position, will increase losses associated with credit-based derivatives where we assume credit exposure, and, if issuer credit spreads increase significantly for an extended period of time or it is a period of increasing defaults, will also likely result in higher OTTI charges. All else held equal, credit spread tightening will reduce net investment income associated with new purchases of fixed maturities. In addition, market volatility can make it difficult to value certain of our securities if trading becomes less frequent. As such, valuations may include assumptions or estimates that may have significant period to period changes that could have a material adverse effect on our consolidated results of operations or financial condition. The credit spread duration in our fixed income portfolio was 3.5 years at December 31, 2014.

We manage credit risk in the investment portfolio, including fixed income, alternative and short-term investments, through the credit research performed primarily by the investment management service providers. The management of credit risk in the investment portfolio is integrated in our credit risk management governance framework and the management of credit exposures and concentrations within the investment portfolio is carried out in accordance with our risk policies, philosophies, appetites, limits and risk concentrations related to the investment portfolio. In the investment portfolio, we review on a regular basis our asset concentration, credit quality and adherence to our credit limit guidelines. Any issuer over its credit limits or experiencing financial difficulties, material credit quality deterioration or potentially subject to forthcoming credit quality deterioration is placed on a watch list for closer monitoring. Where appropriate, exposures are reduced or prevented from increasing.

The table below shows our aggregate fixed income portfolio by credit rating in percentage terms of our aggregate fixed income portfolio (consisting of corporate debt and U.S. Agency debt and related mortgage-backed securities having and including fixed maturities, short-term investments, cash and cash equivalents and net receivable/(payable) for investment sold/(purchased)) at December 31, 2014:

	Percentage of Aggregated Fixed Income Portfolio (1)(2)	
AAA	44.1	%
AA	20.4	%
A	23.6	%
BBB	8.9	%
BB or Below	3.0	%
NR	—%	
Total	100.0	%

(1) The credit ratings above were principally determined based on the weighted average rating of the individual securities from Standard & Poor's, Moody's Investors Service and Fitch Ratings (where available). The credit ratings for U.S. Agency debt and related mortgage-backed securities, whether with implicit or explicit government support, reflects the credit quality rating of the U.S. government for the purpose of these calculations.

(2) Excludes Life Funds Withheld Assets.

At December 31, 2014, the average credit quality of our aggregate fixed income investment portfolio was “ Aa3(AA-) " compared to “Aa3/AA-” at December 31, 2013. Our $10.2 billion portfolio of government and government related, agency, sovereign and cash holdings was rated "AA+", our $8.9 billion portfolio of corporates was rated “A", and our $7.0 billion structured securities portfolio was rated "AA+".

We are closely monitoring our corporate financial bond holdings given the events of the past six years. The table below summarizes our significant exposures (defined as bonds issued by financial institutions with an amortized cost in excess of $50.0 million) to corporate bonds of financial issuers including Covered Bonds held within our AFS investment portfolio holdings at December 31, 2014, representing both amortized cost and net unrealized gains (losses):

Issuer (by Global Ultimate Parent) (1)(2) (U.S. dollars in millions)	December 31, 2014 Weighted Average Credit Quality (3)	Amortized Cost	Unrealized Gain/ (Loss)
WELLS FARGO & COMPANY	A+	$173.4	$6.1
CITIGROUP INC.	A-	148.7	6.0
JPMORGAN CHASE & CO.	A	147.2	5.5
RABOBANK NEDERLAND NV	AA-	129.8	5.0
BANK OF AMERICA CORPORATION	BBB+	127.4	3.2
THE GOLDMAN SACHS GROUP, INC.	A-	112.9	6.2
WESTPAC BANKING CORPORATION	AA	88.1	3.3
THE PNC FINANCIAL SERVICES GROUP, INC.	A	84.7	1.4
UBS GROUP AG	AA	83.3	3.1
LLOYDS BANKING GROUP PLC	AA+	83.1	4.5
COMMONWEALTH BANK OF AUSTRALIA	AA+	81.2	2.3
THE BANK OF NOVA SCOTIA	AA	80.1	0.8
BERKSHIRE HATHAWAY INC.	AA-	79.7	2.2
MORGAN STANLEY	A-	78.6	1.4
HSBC HOLDINGS PLC	A+	76.0	1.2
BB&T CORPORATION	A	73.3	0.4
BNP PARIBAS	A+	73.1	1.6
U.S. BANCORP	A+	67.2	0.5
BANK OF MONTREAL	AA	67.0	0.9
NATIONAL AUSTRALIA BANK LIMITED	AA	66.2	2.2
ING GROEP N.V.	AA-	58.5	2.3
GOVERNMENT OF NETHERLANDS (ABN AMRO)	AAA	54.7	3.9
AMERICAN EXPRESS COMPANY	A	52.8	1.7
NATIONAL BANK OF CANADA	AA+	51.2	1.2

(1) Includes Covered Bonds.
(2) Excludes Life Funds Withheld Assets.
(3) The credit rating for each asset reflected above was principally determined based on the weighted average rating of the individual securities from Standard & Poor's, Moody's Investors Service and Fitch Ratings (where available). U.S. Agency debt and related mortgage-backed securities, whether with implicit or explicit government support, reflect the credit quality rating of the U.S. government for the purpose of these calculations.

At December 31, 2014, the top 10 corporate financial holdings, which exclude government guaranteed and government sponsored enterprises, represented approximately 4.5% of the aggregate fixed income portfolio and approximately 13.3% of all corporate holdings. The top 10 corporate bond holdings listed below represent the direct exposure as of December 31, 2014 to the corporations listed below, including their subsidiaries, and exclude any securitized, credit enhanced and collateralized asset or mortgage-backed securities, cash and cash equivalents, pooled notes and any over-the-counter ("OTC") derivative counterparty exposures, if applicable, but does include Covered

Bonds:

115

Top 10 Corporate Financial Holdings (1)(2)	Percentage of Aggregate Fixed Income Portfolio
WELLS FARGO & COMPANY	0.7%
CITIGROUP INC.	0.6%
JPMORGAN CHASE & CO.	0.6%
RABOBANK NEDERLAND NV	0.5%
BANK OF AMERICA CORPORATION	0.5%
THE GOLDMAN SACHS GROUP, INC.	0.4%
WESTPAC BANKING CORPORATION	0.3%
THE PNC FINANCIAL SERVICES GROUP, INC.	0.3%
UBS GROUP AG	0.3%
LLOYDS BANKING GROUP PLC	0.3%

(1) Corporate issuers include Covered Bonds.
(2) Excludes Life Funds Withheld Assets.

At December 31, 2014, the top 5 corporate sector exposures listed below represented 26.2% of the aggregate fixed income investment portfolio and 76.6% of all corporate holdings.

Top 5 Sector Exposures (1) (U.S. dollars in millions)	Carrying Value	Percentage of Aggregate Fixed Income Portfolio	
Financials (2)	$2,772.3	10.7	%
Consumer, non-Cyclical	1,741.5	6.7	%
Consumer, Cyclical	827.5	3.2	%
Industrial	759.9	2.9	%
Energy	708.7	2.7	%
Total	$6,809.9	26.2	%

(1) Excludes Life Funds Withheld Assets.
(2) Government-guaranteed securities and Covered Bonds have been excluded from the above figures.

We also have exposure to credit risk associated with our mortgage-backed and asset-backed securities. The table below shows the breakdown at December 31, 2014 of the $7.0 billion structured securities portfolio, of which 85.5% is AAA rated:

(U.S. dollars in millions)	Carrying Value (1)	Percentage of Structured Portfolio	
Agency RMBS	$3,728.6	53.6	%
Other ABS (2)	1,065.3	15.3	%
CMBS	1,052.5	15.1	%
Core CDO (non-ABS CDOs and CLOs)	692.0	9.9	%
Non-Agency RMBS	427.4	6.1	%
Total	$6,965.8	100.0	%

(1) Excludes Life Funds Withheld Assets
(2) Includes Covered Bonds.

Credit Risk – Other (Excluding Life Funds Withheld Assets)

Credit derivatives can be purchased within our investment portfolio. From time to time, we may purchase credit default swaps to hedge an existing position or concentration of holdings. The credit derivatives are recorded at fair value. For further details with respect to our exposure to credit derivatives, see Item 8, Note 16, “Derivative

Instruments,” to the Consolidated Financial Statements included herein.
We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, alternatives and other investment funds and other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty. In addition, with respect to secured transactions, our credit risk may be exacerbated when the collateral held by us cannot be sold or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure that is due. We also have exposure to financial institutions in the form of unsecured debt instruments, derivative transactions, revolving credit facility and letter of credit commitments and equity investments. There can be no assurance that any such losses or

impairments to the carrying value of these assets would not materially and adversely affect our business and results of operations.
With regard to unpaid losses and loss expenses recoverable and reinsurance balances receivable, we have credit risk should any of our reinsurers be unable or unwilling to settle amounts due to us; however, these exposures are not marked to market. For further information relating to reinsurer credit risk, see Item 2, “Management's Discussion and Analysis of Financial Condition and Results of Operations - Unpaid Losses and Loss Expenses Recoverable and Reinsurance Balances Receivable.”
We are exposed to credit risk in the event of non-performance by the other parties to our derivative instruments in general; however, we do not anticipate non-performance. The difference between the notional principal amounts and the associated market value is our maximum credit exposure.
Equity Price Risk (Excluding Life Funds Withheld Assets)
Equity price risk is the potential loss arising from changes in the market value of equities. Our equity investment portfolio is exposed to equity price risk. At December 31, 2014, our equity portfolio was approximately $789.1 million as compared to $952.8 million at December 31, 2013. This excludes fixed income fund investments of $79.2 million and $87.4 million at December 31, 2014 and 2013, respectively, that generally do not have the risk characteristics of equity investments but are treated as equity investments under GAAP. At December 31, 2014 and 2013, our direct allocation to equity securities was 2.4% and 2.6%, respectively, of the total investment portfolio (including cash and cash equivalents, accrued investment income and net payable for investments purchased). We also estimate the equity risk embedded in certain alternative and private investments. Such estimates are derived from market exposures provided to us by certain individual fund investments and/or internal statistical analyses.
Other Market Risks (Excluding Life Funds Withheld Assets)
Our private investment portfolio is invested in limited partnerships and other entities that are not publicly traded. In addition to normal market risks, these positions may also be exposed to liquidity risk, risks related to distressed investments and risks specific to startup or small companies. At December 31, 2014, our exposure to private investments, excluding unfunded commitments, was $325.2 million, representing 1.1% of the total investment portfolio (including cash and cash equivalents, accrued investment income and net payable for investments purchased) compared to $268.7 million at December 31, 2013.
Our alternative investment portfolio, which is exposed to equity and credit risk as well as certain other market risks, had a total exposure of $1.7 billion representing approximately 5.6% of the total investment portfolio (including cash and cash equivalents, accrued investment income and net payable for investments purchased) at December 31, 2014, as compared to December 31, 2013, when we had a total exposure of $1.5 billion representing approximately 4.2% of the investment portfolio.
As noted above, we also invest in certain derivative positions that can be impacted by market value movements. For further details on derivative instruments, see Item 8, Note 16, “Derivative Instruments,” to the Consolidated Financial Statements included herein.
Sensitivity and Value-at-Risk Analysis (Excluding Life Funds Withheld Assets)
The table below summarizes our assessment of the estimated impact on the value of our investment portfolio at December 31, 2014 associated with an immediate and hypothetical: +100 bps increase in interest rates, a -10% decline in equity markets, a +100 bps widening in spreads and a +10% widening in spreads. The table also reports the 95%, 1-year VaRs for our investment portfolios at December 31, 2014, excluding foreign exchange. The interest rate, spread risk, and VaR shown in the table below exclude Life Funds Withheld Assets.
The estimated results at December 31, 2014 below also do not include any risk contributions from our various operating affiliates (strategic, investment manager or financial operating affiliates) or certain other investments that are carried at amortized cost.

(U.S. dollars in millions)	Interest Rate Risk (1)	Equity Risk (2)	Absolute Spread Risk (3)	Relative Spread Risk (4)	VaR (5) (6)
Total Investment Portfolio (7)	$(986.0)	$(188.1)	$(961.2)	$(76.1)	$575.6
(I) Fixed Income Portfolio	(980.5)	—	(917.2)	(71.1)	591.0
(a) Cash & Short Term Investments	(26.3)	—	(6.8)	(0.4)	19.0
(b) Total Government Related	(405.7)	—	(257.7)	(9.5)	220.6
(c) Total Corporate Credit	(330.9)	—	(360.2)	(36.0)	248.2
(d) Total Structured Credit	(217.6)	—	(292.5)	(25.2)	128.0
(II) P&C Non-Fixed Income Portfolio	—	(188.1)	—	—	331.6
(e) Equity Portfolio	—	(80.6)	—	—	180.3
(f) Alternative Portfolio	—	(78.5)	—	—	134.3
(g) Private Investments	—	(29.0)	—	—	42.0
(h) Other	—	—	—	—	5.6

(1) The estimated impact on the fair value of our fixed income portfolio of an immediate hypothetical +100 bps adverse parallel shift in global bond curves.

(2) The estimated impact on the fair value of our investment portfolio of an immediate hypothetical -10% change in the value of equity exposures in our equity portfolio, certain equity-sensitive alternative investments and private equity investments. This includes our estimate of equity risk embedded in the alternatives and private investment portfolio with such estimates utilizing market exposures provided to us by certain individual fund investments, internal statistical analyses, and/or various assumptions regarding illiquidity and concentrations.

(3) The estimated impact on the fair value of our fixed income portfolio of an immediate hypothetical +100 basis point increase in all global government related, corporate and structured security spreads to which our fixed income portfolio is exposed. This excludes exposure to credit spreads in our alternative investments, private investments and counterparty exposure.

(4) The estimated impact on the fair value of our fixed income portfolio of an immediate hypothetical +10% increase in all global government related, corporate and structured security spreads to which our fixed income portfolio is exposed. This excludes exposure to credit spreads in our alternative investments, private investments and counterparty exposure.

(5) The VaR results are based on a 95% confidence interval, with a one-year holding period, excluding foreign exchange rate risk. Our investment portfolio VaR at December 31, 2014 is not necessarily indicative of future VaR levels as these are based on statistical estimates of possible price changes and, therefore, exclude other sources of investment return such as coupon and dividend income.

(6) The VaR results are the standalone VaRs, based on the prescribed methodology, for each component of our Total Investment Portfolio. The standalone VaRs of the individual components are non-additive, with the difference between the summation of the individual component VaRs and their respective aggregations being due to diversification benefits across the individual components. In the case of the VaR results for our Total Investment Portfolio, the results also include the impact associated with our Business and Other investments.

(7) Our Total Investment Portfolio also includes our Business and Other investments that do not form part of our Fixed Income Portfolio or Non-Fixed Income Portfolio. The individual results reported in the above table for our Total Investment Portfolio therefore represent the aggregate impact on our Fixed Income Portfolio, Non-Fixed Income Portfolio and the majority of our Other investments.

Stress Testing (Excluding Life Funds Withheld Assets)

VaR does not provide the means to estimate the magnitude of the loss in the 5% of occurrences when we expect the VaR level to be exceeded. To complement the VaR analysis based on normal market environments, we consider the impact on the investment portfolio in several different stress scenarios to analyze the effect of unusual market conditions. We establish certain stress scenarios that are applied to the actual investment portfolio. As these stress scenarios and estimated gains and losses are based on scenarios established by us, they will not necessarily reflect

future stress events or gains and losses from such events. The results of the stress scenarios are reviewed on a regular basis to ensure they are appropriate, based on current shareholders' equity, market conditions and our total risk tolerance. It is important to note that when assessing the risk of our investment portfolio, we do not take into account either the value or risk associated with the liabilities arising from our operations.

Life Funds Withheld Assets

The table below shows the Life Funds Withheld Assets by credit rating in percentage terms at December 31, 2014:

	Percentage of Aggregated Fixed Income Portfolio (1)	
AAA	16.9	%
AA	28.3	%
A	30.0	%
BBB	24.5	%
BB or Below	0.3	%
Total	100.0	%

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(1) The credit ratings above were principally determined based on the weighted average rating of the individual securities from Standard & Poor's, Moody's Investors Service and Fitch Ratings (where available). The credit ratings for U.S. Agency debt and related mortgage-backed securities, whether with implicit or explicit government support, reflect the credit quality rating of the U.S. government for the purpose of these calculations.

At December 31, 2014, the average credit quality of the Life Funds Withheld Assets was “A+".

At December 31, 2014, the top 5 corporate sector exposures listed below represented 47.4% of the Life Funds Withheld Assets.

Top 5 Sector Exposures (U.S. dollars in millions)	Carrying Value	Percentage of Aggregate Fixed Income Portfolio	
Financials (1)	$801.0	14.8	%
Utilities	683.7	12.6	%
Consumer, non-Cyclical	457.1	8.5	%
Communications	364.6	6.7	%
Industrial	261.1	4.8	%
Total	$2,567.5	47.4	%

(1) Government-guaranteed securities and Covered Bonds have been excluded from the above figures.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

Index to Consolidated Financial Statements	Page
Consolidated Balance Sheets at December 31, 2014 and 2013	121
Consolidated Statements of Income for the years ended December 31, 2014, 2013 and 2012	122
Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012	123
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2014, 2013 and 2012	124
Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012	125
Notes to Consolidated Financial Statements for the years ended December 31, 2014, 2013 and 2012	127

XL GROUP PLC
CONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31, 2014 AND 2013

(U.S. dollars in thousands, except share data)	2014	2013
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost: 2014, $27,728,771; 2013, $27,111,874)	$29,359,034	$27,500,136
Equity securities, at fair value (cost: 2014, $763,833; 2013, $903,201)	868,292	1,040,237
Short-term investments, at fair value (amortized cost: 2014, $257,221; 2013, $455,470)	256,727	456,288
Total investments available for sale	$30,484,053	$28,996,661
Fixed maturities, trading at fair value (amortized cost: 2014, $1,180; 2013, nil)	1,171	—
Fixed maturities, held to maturity at amortized cost (fair value: 2014, nil; 2013, $3,131,235)	—	2,858,695
Investments in affiliates	1,637,620	1,370,943
Other investments	1,248,439	1,164,630
Total investments	$33,371,283	$34,390,929
Cash and cash equivalents	2,521,814	1,800,832
Accrued investment income	315,964	346,809
Deferred acquisition costs	354,533	670,659
Ceded unearned premiums	952,525	788,871
Premiums receivabl		