XL GROUP PLC
Form 10-Q
November 05, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from _______ to ______
Commission file number 1-10804
XL GROUP
Public Limited Company
(Exact name of registrant as specified in its charter)

Ireland	98-0665416
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

XL House, 8 St. Stephen's Green, Dublin 2, Ireland
(Address of principal executive offices and zip code)
+353 (1) 400-5500
(Registrant’s telephone number, including area code)

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

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

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

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

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

As of November 2, 2015, there were 297,759,367 outstanding Ordinary Shares, $0.01 par value per share, of the registrant.

XL GROUP PLC
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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

XL GROUP PLC

UNAUDITED CONSOLIDATED BALANCE SHEETS

(U.S. dollars in thousands, except share data)	September 30, 2015	December 31, 2014
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost: 2015, $32,207,019; 2014, $27,728,771)	$33,276,322	$29,359,034
Equity securities, at fair value (cost: 2015, $984,192; 2014, $763,833)	969,706	868,292
Short-term investments, at fair value (amortized cost: 2015, $545,979; 2014, $257,221)	546,020	256,727
Total investments available for sale	$34,792,048	$30,484,053
Fixed maturities, at fair value (amortized cost: 2015, $933,872; 2014, $1,180)	$914,337	$1,171
Short-term investments, at fair value (amortized cost: 2015, $70,883; 2014, nil)	70,886	—
Total investments trading	$985,223	$1,171
Investments in affiliates	1,592,841	1,637,620
Other investments	1,676,140	1,248,439
Total investments	$39,046,252	$33,371,283
Cash and cash equivalents	3,340,070	2,521,814
Restricted cash	147,810	—
Accrued investment income	311,679	315,964
Deferred acquisition costs and value of business acquired	1,036,260	354,533
Ceded unearned premiums	2,088,569	952,525
Premiums receivable	5,257,588	2,473,736
Reinsurance balances receivable	425,521	131,519
Unpaid losses and loss expenses recoverable	5,197,577	3,429,368
Receivable from investments sold	95,571	92,762
Goodwill and other intangible assets	2,213,688	447,952
Deferred tax asset	252,492	204,491
Other assets	1,003,446	750,872
Total assets	$60,416,523	$45,046,819
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss expenses	$25,789,541	$19,353,243
Deposit liabilities	1,194,815	1,245,367
Future policy benefit reserves	4,323,748	4,707,199
Funds withheld on life retrocession arrangements (net of future policy benefit reserves recoverable: 2015, $3,886,297; 2014, $4,265,678)	930,834	1,155,016
Unearned premiums	7,840,331	3,973,132
Notes payable and debt	2,726,917	1,662,580
Reinsurance balances payable	2,295,890	493,230
Payable for investments purchased	154,342	42,291
Deferred tax liability	126,130	66,246
Other liabilities	1,133,467	912,749

Total liabilities	$46,516,015	$33,611,053
Commitments and Contingencies		
Shareholders' Equity:		
Ordinary shares, 999,990,000 authorized, par value $0.01; issued and outstanding (2015, 299,317,344; 2014, 255,182,955)	$2,993	$2,552
Additional paid in capital	9,036,407	7,359,102
Accumulated other comprehensive income	955,082	1,484,458
Retained earnings	1,943,747	1,187,639
Shareholders' equity attributable to XL Group plc	$11,938,229	$10,033,751
Non-controlling interest in equity of consolidated subsidiaries	1,962,279	1,402,015
Total shareholders' equity	$13,900,508	$11,435,766
Total liabilities and shareholders' equity	$60,416,523	$45,046,819

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
(U.S. dollars in thousands, except per share data)	2015	2014	2015	2014
Revenues:				
Net premiums earned	$2,423,552	$1,473,412	$5,839,605	$4,458,845
Net investment income:				
Net investment income - excluding Life Funds Withheld Assets	178,560	169,956	512,994	616,753
Net investment income - Life Funds Withheld Assets	46,586	56,474	143,869	75,639
Total net investment income	$225,146	$226,430	$656,863	$692,392
Net realized gains (losses) on investments, and net unrealized gains (losses) on investments trading securities ("Trading") - Life Funds Withheld Assets:				
Net realized gains (losses) on investments sold - excluding Life Funds Withheld Assets	42,513	10,957	78,630	139,373
Other-than-temporary impairments ("OTTI") on investments - excluding Life Funds Withheld Assets	(42,013)	(752)	(69,048)	(27,390)
OTTI on investments transferred to (from) other comprehensive income - excluding Life Funds Withheld Assets	(701)	(392)	(830)	(2,097)
Net realized gains (losses) on investments sold - Life Funds Withheld Assets	53,780	2,022	174,555	2,646
OTTI on investments - Life Funds Withheld Assets	(2,023)	(7,494)	(10,110)	(16,265)
Net unrealized gains (losses) on investments Trading - Life Funds Withheld Assets	(149)	—	(18,932)	—
Total net realized gains (losses) on investments, and net unrealized gains (losses) on investments Trading - Life Funds Withheld Assets	$51,407	$4,341	$154,265	$96,267
Net realized and unrealized gains (losses) on derivative instruments	(7,903)	5,131	57,127	18,540
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	(126,140)	(201,264)	(116,333)	(218,810)
Income (loss) from investment fund affiliates	(3,715)	24,500	62,991	75,486
Fee income and other	7,355	10,782	23,095	31,942
Total revenues	$2,569,702	$1,543,332	$6,677,613	$5,154,662
Expenses:				
Net losses and loss expenses incurred	$1,464,285	$859,588	$3,385,307	$2,518,973
Claims and policy benefits	22,579	20,101	64,047	218,987
Acquisition costs	409,173	182,882	904,486	566,915
Operating expenses	570,142	341,255	1,403,152	984,708
Foreign exchange (gains) losses	11,661	(23,348)	49,425	8,234
Loss on sale of life reinsurance subsidiary	—	—	—	666,423
Interest expense	51,929	42,851	153,034	99,877
Total expenses	$2,529,769	$1,423,329	$5,959,451	$5,064,117
Income (loss) before income tax and income (loss) from operating affiliates	$39,933	$120,003	$718,162	$90,545

Income (loss) from operating affiliates	8,196	20,021	40,326	94,044
Gain on sale of operating affiliate	—	—	340,407	—
Provision (benefit) for income tax	(37,042)	30,057	20,135	58,724
Net income (loss)	$85,171	$109,967	$1,078,760	$125,865
Non-controlling interests	57,889	37,583	100,158	77,024
Net income (loss) attributable to ordinary shareholders	$27,282	$72,384	$978,602	$48,841
Weighted average ordinary shares and ordinary share equivalents outstanding, in thousands – basic	301,867	264,353	282,506	270,494
Weighted average ordinary shares and ordinary share equivalents outstanding, in thousands – diluted	306,954	269,140	287,473	274,912
Earnings (loss) per ordinary share and ordinary share equivalent – basic	$0.09	$0.27	$3.46	$0.18
Earnings (loss) per ordinary share and ordinary share equivalent – diluted	$0.09	$0.27	$3.40	$0.18

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
(U.S. dollars in thousands)	2015	2014	2015	2014
Net income (loss) attributable to ordinary shareholders	$27,282	$72,384	$978,602	$48,841
Change in net unrealized gains (losses) on investments - excluding Life Funds Withheld Assets, net of tax	(97,658)	(130,135)	(356,248)	371,945
Unrealized gains on held to maturity investment portfolio at time of transfer to available for sale, net of tax	—	—	—	424,861
Change in adjustments related to future policy benefit reserves, net of tax	40,681	51,286	127,365	(423,179)
Change in net unrealized gains (losses) on investments - Life Funds Withheld Assets, net of tax	(33,569)	93,921	(317,500)	106,218
Change in net unrealized gains (losses) on affiliate and other investments, net of tax	(10,394)	15,172	24,293	29,145
Change in OTTI losses recognized in other comprehensive income, net of tax	2,137	5,963	13,570	10,895
Change in underfunded pension liability, net of tax	93	418	(261)	379
Change in value of cash flow hedge	12	83	119	303
Foreign currency translation adjustments, net of tax	(22,394)	(11,813)	(20,714)	(25,295)
Comprehensive income (loss)	$(93,810)	$97,279	$449,226	$544,113

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC
UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(U.S. dollars in thousands)	Nine Months Ended September 30, 2015	2014
Ordinary Shares:		
Balance - beginning of year	$2,552	$2,783
Issuance of ordinary shares	515	11
Buybacks of ordinary shares	(78)	(196)
Exercise of stock options	4	4
Balance - end of period	$2,993	$2,602
Additional Paid in Capital:		
Balance - beginning of year	$7,359,102	$7,994,100
Issuance of ordinary shares	1,856,253	20
Buybacks of ordinary shares	(228,857)	(560,007)
Exercise of stock options	7,900	5,408
Share-based compensation	42,009	51,354
Balance - end of period	$9,036,407	$7,490,875
Accumulated Other Comprehensive Income (Loss):		
Balance - beginning of year	$1,484,458	$736,657
Change in net unrealized gains (losses) on investments - excluding Life Funds Withheld Assets, net of tax	(356,248)	371,945
Unrealized gains on held to maturity investment portfolio at time of transfer to available for sale, net of tax	—	424,861
Change in adjustments related to future policy benefit reserves, net of tax	127,365	(423,179)
Change in net unrealized gains (losses) on investments - Life Funds Withheld Assets, net of tax	(317,500)	106,218
Change in net unrealized gains (losses) on affiliate and other investments, net of tax	24,293	29,145
Change in OTTI losses recognized in other comprehensive income, net of tax	13,570	10,895
Change in underfunded pension liability, net of tax	(261)	379
Change in value of cash flow hedge	119	303
Foreign currency translation adjustments, net of tax	(20,714)	(25,295)
Balance - end of period	$955,082	$1,231,929
Retained Earnings (Deficit):		
Balance - beginning of year	$1,187,639	$1,264,093
Net income (loss) attributable to ordinary shareholders	978,602	48,841
Dividends on ordinary shares	(151,997)	(130,714)
Buybacks of ordinary shares	(63,334)	(66,572)
Share-based compensation	(7,163)	—
Balance - end of period	$1,943,747	$1,115,648
Non-controlling Interest in Equity of Consolidated Subsidiaries:		
Balance - beginning of year	$1,402,015	$1,351,665
Non-controlling interests - contributions	10,292	24,839
Non-controlling interests - distributions	(17,519)	—
Non-controlling interests - acquired	562,285	—
Non-controlling interests	5,206	3,216
Balance - end of period	$1,962,279	$1,379,720
Total Shareholders' Equity	$13,900,508	$11,220,774

See accompanying Notes to Unaudited Consolidated Financial Statements

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XL GROUP PLC
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars in thousands)	Nine Months Ended September 30, 2015	2014
Cash flows provided by (used in) operating activities:		
Net income (loss)	$1,078,760	$125,865
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Total net realized (gains) losses on investments and net unrealized (gains) losses on investments, Trading - Life Funds Withheld Assets	(154,265)	(96,267)
Net realized and unrealized (gains) losses on derivative instruments	(57,127)	(18,540)
Net realized and unrealized (gains) losses on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	116,333	218,810
Amortization of premiums (discounts) on fixed maturities	143,118	118,021
(Income) loss from investment and operating affiliates	(72,802)	(107,659)
Loss on sale of life reinsurance subsidiary	—	666,423
Gain on sale of ARX Holding Corp.	(340,407)	—
Share-based compensation	57,695	65,304
Depreciation	50,662	43,511
Accretion of deposit liabilities	32,098	3,136
Changes in:		
Unpaid losses and loss expenses	16,169	(128,919)
Future policy benefit reserves	(208,286)	(172,234)
Funds withheld on life retrocession arrangements, net	(213,749)	2,968
Unearned premiums	225,785	524,393
Premiums receivable	(334,537)	(262,435)
Unpaid losses and loss expenses recoverable	(346,847)	(230,870)
Ceded unearned premiums	(16,172)	(251,985)
Reinsurance balances receivable	(918)	(49,462)
Deferred acquisition costs and value of business acquired	(40,087)	243,391
Reinsurance balances payable	389,494	264,994
Deferred tax asset - net	(38,619)	(42,142)
Derivatives	163,663	(6,262)
Other assets	(30,670)	(44,467)
Other liabilities	39,841	(154,501)
Other	50,368	16,952
Total adjustments	$(569,260)	$602,160
Net cash provided by (used in) operating activities	$509,500	$728,025
Cash flows provided by (used in) investing activities:		
Proceeds from sale of fixed maturities and short-term investments	$10,568,708	$4,048,233
Proceeds from redemption of fixed maturities and short-term investments	2,787,870	2,681,001
Proceeds from sale of equity securities	443,941	370,189
Purchases of fixed maturities and short-term investments	(12,720,937)	(5,616,992)
Purchases of equity securities	(436,622)	(326,319)
Proceeds from sale of affiliates	163,830	231,902
Purchases of affiliates	(94,745)	(293,974)
Purchase of Catlin Group Limited, net of cash acquired	(1,020,015)	—
Proceeds from sale of life reinsurance subsidiary	—	570,000
Proceeds from sale of ARX Holding Corp.	560,552	—

Change in restricted cash	(147,810)	—
Other, net	(138,168)	(158,250)
Net cash provided by (used in) investing activities	$(33,396)	$1,505,790
Cash flows provided by (used in) financing activities:		
Proceeds from issuance of ordinary shares and exercise of stock options	$7,904	$5,411
Buybacks of ordinary shares	(292,269)	(626,774)
Dividends paid on ordinary shares	(149,030)	(129,490)
Distributions to non-controlling interests	(80,641)	(41,463)
Contributions from non-controlling interests	10,292	24,839
Proceeds from the issuance of debt	980,600	—
Repayment of debt	—	(600,000)
Deposit liabilities	(79,944)	(266,542)
Net cash provided by (used in) financing activities	$396,912	$(1,634,019)
Effects of exchange rate changes on foreign currency cash	(54,760)	(46,894)
Increase (decrease) in cash and cash equivalents	$818,256	$552,902
Cash and cash equivalents - beginning of period	2,521,814	1,800,832
Cash and cash equivalents - end of period	$3,340,070	$2,353,734

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation and Consolidation
Unless the context otherwise indicates, references herein to the "Company" include XL Group plc, an Irish public limited company ("XL-Ireland"), and its consolidated subsidiaries. On May 1, 2015, the Company completed its acquisition of Catlin Group Limited and its consolidated subsidiaries ("Catlin"). Catlin, through its wholly-owned subsidiaries, provided property, casualty and specialty insurance and reinsurance coverage on a worldwide basis. The Company's consolidated results of operations include those of Catlin from May 1, 2015. See Note 3(c), "Acquisitions and Disposals - Catlin Acquisition," for additional information with respect to the acquisition of Catlin.
These unaudited consolidated financial statements include the accounts of the Company and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by GAAP for complete financial statements. In addition, the year-end balance sheet data was derived from audited financial statements but do not include all disclosures required by GAAP. In the opinion of management, these unaudited financial statements reflect all adjustments considered necessary for a fair statement of financial position and results of operations at the end of and for the periods presented. The results of operations for any interim period are not necessarily indicative of the results for a full year. All inter-company accounts and transactions have been eliminated. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure about contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates. For further information, see Item 8, Note 2(a), "Significant Accounting Policies - Basis of Preparation and Consolidation," to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.
To facilitate period-to-period comparisons, certain reclassifications have been made to prior period consolidated financial statement amounts to conform to current period presentation.
2. Significant Accounting Policies
(a) Restricted Cash
Restricted cash represents cash and cash equivalents that the Company is a) holding for the benefit of a third party and is legally or contractually restricted as to withdrawal or usage for general corporate purposes; and b) not replaceable by another type of asset other than cash or cash equivalents, under the terms of the Company's contractual arrangements with such third parties. Restricted cash includes cash and cash equivalents held pursuant to the terms of the Company's contractual obligations of the transaction described in Note 3(e), "Acquisitions and Disposals - Sale of Life Reinsurance Subsidiary."
(b) Reinsurance
During the three months ended September 30, 2014, the Company recorded $20.0 million, net of tax, to premiums earned and associated tax accruals related to reinstatement premiums due under assumed reinsurance contracts arising from unpaid losses and loss expenses reported in a prior period. We evaluated the quantitative and qualitative aspects of this correction and concluded that the impact of recognizing it was not material to the consolidated financial statements, nor is it material to previously issued consolidated financial statements in prior periods.
(c) Recent Accounting Pronouncements
In February 2015, the Financial Accounting Standards Board ("FASB") issued an accounting standards update concerning consolidation of certain legal entities. Under this new guidance, all legal entities are required to evaluate whether they should consolidate certain legal entities. The guidance: (1) modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities; (2) eliminates the presumption that a general partner should consolidate a limited partnership; (3) affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) provides a scope exception from consolidation guidance for certain reporting entities. Upon adoption of the new guidance, differing requirements for performing a consolidation analysis under existing GAAP

will be eliminated, and all reporting entities will now fall within the scope of the Accounting Standards Codification Subtopic 810-10, Consolidation-Overall, unless a specific exception applies. Under this Subtopic, there are only two primary models for determining whether consolidation is appropriate - a voting interest entity model, and a variable interest entity model. The guidance is effective for public business entities for annual periods beginning after December 15, 2015, and interim and annual periods thereafter, with early adoption permitted. The Company is currently evaluating the impact of this guidance.

XL GROUP PLC
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

In September 2015, the FASB issued an accounting standards update concerning the accounting for measurement period adjustments following the completion of a business combination. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable; however, it shall not exceed one year from the acquisition date. Currently under GAAP, during the measurement period the acquirer shall recognize such adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date, with a corresponding adjustment to goodwill, in the reporting period in which the adjustments are determined. The acquirer shall revise comparative information for prior periods presented in financial statements as needed as a result of the change to the provisional amounts calculated. Under the new guidance, although such adjustments shall still be calculated as if the accounting had been completed at the business combination date, the acquirer should recognize in its current-period earnings the cumulative effect of changes in depreciation, amortization, or other income effects, by line item, related to the periods subsequent to the acquisition date as a result of the adjustments. In addition, entities must present separately on the face of the income statement, or alternatively in the notes to the financial statements, the portion of such current period adjustments that would have been recorded in previous reporting periods, if the adjustments had been recognized at the acquisition date. The guidance is effective for provisional adjustments made by public business entities in annual periods beginning after December 15, 2015 - irrespective of the date of the business combination to which they relate - including interim periods within those fiscal years. Early adoption is permitted for financial statements that have not yet been made available for issuance. To the extent that the Company were to make material measurement period adjustments to provisional amounts recognized as part of the Catlin Acquisition, this could have a material impact on the Company's results of operations during the period in which such adjustments were made. The guidance is not expected to have a material impact on the Company's financial condition or cash flows.

3. Acquisitions and Disposals

(a) Allied Acquisition

On August 11, 2015, the Company announced that X.L. America, Inc., an indirect, wholly-owned subsidiary of XL-Ireland ("XLA") had entered into a definitive agreement to acquire Allied International Holdings, Inc. and its subsidiaries ("Allied"). Allied, through its subsidiaries, provides property and casualty insurance coverage for the amusement and entertainment industry in the United States. The transaction is expected to close no later than the first quarter of 2016, and is subject to receipt of regulatory approvals and satisfaction of customary closing conditions.

(b) New Energy Risk

On July 24, 2015, the Company purchased, at arm's length, an additional 63.63% interest in New Energy Risk Inc. ("New Energy"), a provider of insurance risk management solutions within the alternative energy sector. A substantial portion of the additional shares were purchased directly from the family trusts of a Company employee who is responsible for managing the business generated by New Energy. Prior to the additional purchase, the Company held a 31.16% ownership interest in New Energy, which was accounted for as an equity method investment. The subsequent purchase raised the Company's ownership stake to 94.79%, which is deemed a controlling financial interest, and hence, the Company now consolidates New Energy. Subsequent to the additional purchase, the family trusts of the employee contributed their remaining 5.21% ownership interest in New Energy to XL Innovate Fund, LP ("XL Innovate Fund"), the entity that holds the Company's New Energy shares, in partial satisfaction of the employee's aggregate 5.21% investment commitment to the Fund. See Note 11, "Related Party Transactions" for further details of these transactions.

The Company paid approximately $8.8 million to acquire the additional interest in New Energy, and realized a gain of approximately $2.5 million, included within income from operating affiliates, in order to the reflect the appropriate fair value adjustment to its existing investment previously accounted for under the equity method. The assets and liabilities of New Energy are now reflected in the consolidated financial statements of the Company based on their fair value as of the acquisition date, while Goodwill of approximately $13.4 million was recorded in conjunction with the transaction. See Note 8, "Goodwill and Other Intangible Assets" for a further discussion of the goodwill recorded in conjunction with the acquisition.

(c) Catlin Acquisition

Overview

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

Pursuant to the terms of the Implementation Agreement, the Catlin Acquisition was implemented by way of a scheme of arrangement (the "Scheme") under Section 99 of the Companies Act 1981 of Bermuda, as amended (the

"Companies Act"), and sanctioned by the Supreme Court of Bermuda (the "Court"). Immediately after such Court action, Catlin was merged with and into Green Holdings under Section 104H of the Companies Act, with Green Holdings as the surviving company, pursuant to the terms of that certain Merger Agreement, dated January 9, 2015 (the "Merger Agreement"), among XL-Ireland, Green Holdings and Catlin.

Pursuant to the terms of the Implementation Agreement, XL-Ireland acquired each ordinary share of Catlin, par value $0.01 per share ("Catlin Shares"), for consideration per Catlin Share (the "Acquisition Consideration") equal to 388 pence in cash and

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

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

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

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

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

Acquisition Consideration

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

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

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

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

Fair Value of Net Assets Acquired and Liabilities Assumed

The purchase price was allocated to the acquired assets and assumed liabilities of Catlin based on estimated fair values on the Acquisition Date. The Company recognized goodwill of $778.0 million which is primarily attributable to the synergies and economies of scale expected to result upon integration of Catlin into the Company's operations, including further diversification in geographic mix and product offerings and an increase in distribution strength. The Company has not completed the assignment of goodwill to reporting units for the reporting period ended September 30, 2015. The Company estimates that none of the goodwill that was recorded will be deductible for income tax purposes. The Company also recognized indefinite lived intangible assets of $673.0 million and other intangible assets of $315.0 million, which will be amortized over their estimated useful lives. See Note 8, "Goodwill and Other Intangible Assets," for further information.

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

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

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

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(1) Includes Restricted Cash

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

- Deferred acquisition costs and value of business acquired - The adjustment consists of two components. The first adjustment is the elimination of Catlin's deferred acquisition costs asset. The second adjustment is the establishment of the value of business acquired asset, which represents the present value of the expected underwriting profit within the unearned premiums liability, net of reinsurance, less costs to service the related policies and a risk premium. This adjustment will be amortized to underwriting, acquisition and insurance expenses over approximately two years, as the contracts for business in-force as of the Acquisition Date expire. The Company has included $140.4 million and $323.7 million, respectively, in acquisition expenses related to the amortization of the value of business acquired during the three and nine months ended September 30, 2015.

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

Income Taxes

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

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

In order to align all U.S. regulated entities under XLA, XLA purchased 100% of the stock of Catlin Inc. from Catlin North America Holdings, Ltd, a U.K. holding company, on September 28, 2015. The transaction resulted in a release of the $47.5 million valuation allowance previously held against the Catlin Inc. deferred tax asset. The Company incorporated $17.8 million of the associated tax benefit in its determination of the expected full year effective tax rate, with the remaining $29.7 million tax benefit reported as a discrete item in the period.

Transaction-related Costs

The Company incurred certain acquisition and financing costs associated with the Catlin Acquisition. The Company has recorded $63.0 million of these costs for the nine months ended September 30, 2015, of which $48.5 million has been included in Operating Expense and $14.5 million has been included in Interest Expense.

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

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

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

(U.S. dollars in thousands)	Severance related costs	Retention and other compensation costs	Facilities-related costs	Consulting and other
Costs incurred in 2015	$27,778	$16,363	$6,689	$32,215
2015 payments	14,078	7,343	6,689	23,723
Liabilities at September 30, 2015	$13,700	$9,020	$—	$8,492

Financial Results

The following table summarizes the financial results of the acquired legal entity Catlin subsidiaries since the Acquisition Date that have been included within the Company's consolidated statements of income and comprehensive income as required by ASC 805-10-50-2(h) based on legal entity reporting. These results are not used as a part of management analysis of the financial results and performance of the Company's business. These results are adjusted, where possible, for transaction and integration related costs. These results involve a significant amount of estimates and are not indicative of future results of the acquired Catlin subsidiaries, which will be further impacted by potential changes in targeted business mix, investment management strategies, and synergies recognized from changes in the combined entity's operating structure, as well as the impact of changes in other business and capital management strategies.

Since the Acquisition Date, a growing number of underlying policies have been underwritten onto different legal entities, staffing has been allocated to new divisions and activities, and reinsurance has been purchased to cover combined risks, only some of which would have been reflected in the underlying legacy Catlin infrastructure, systems and general ledgers of the acquired Catlin subsidiaries. In future quarters, the summary results of such subsidiaries will be increasingly impractical to produce and even less indicative of the results of the acquired Catlin operations given the significant estimates involved and the nature and pace of our integration activities which are intended to promote the operation of the consolidated group as a whole as quickly as possible.

(U.S. dollars in thousands)	May 1, 2015 to September 30, 2015
Total revenues - see comments above	$1,770,886
Net income (loss) - see comments above	$65,796

Supplemental Pro Forma Information

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

	Unaudited Pro Forma Nine Months Ended September 30,	
(In thousands, except per share data)	2015	2014
Total revenues	$7,997,602	$8,391,849
Net income attributable to ordinary shareholders	986,918	226,983
Earnings (loss) per ordinary share and ordinary share equivalent – basic	3.24	0.71

Earnings (loss) per ordinary share and ordinary share equivalent – diluted	3.19	0.70

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(d) Sale of Strategic Operating Affiliate
On April 1, 2015, XL Re Ltd ("XL Re"), an indirect wholly-owned subsidiary of the Company, completed the previously announced sale of all of its shares in ARX Holding Corp. ("ARX") to The Progressive Corporation ("Progressive") pursuant to the terms of the Stock Purchase Agreement with Progressive. XL Re's shares in ARX represented approximately 40.6% of ARX's outstanding capital stock on a fully diluted basis at the time of the announcement. The carrying value of XL Re's shares in ARX was $220.2 million at the time of the sale.
XL Re received $560.6 million in proceeds from the transaction, which was based upon the consolidated tangible net book value of ARX and its subsidiaries as of December 31, 2014, and certain other factors. Thus, the Company recorded a gain of $340.4 million as a result of this transaction that is reflected in the unaudited consolidated statement of income for the nine months ended September 30, 2015.
(e) Sale of Life Reinsurance Subsidiary
On May 1, 2014, a wholly owned subsidiary of the Company, XL Insurance (Bermuda) Ltd ("XLIB"), entered into a sale and purchase agreement with GreyCastle Holdings Ltd. ("GreyCastle") providing for the sale of 100% of the common shares of XLIB's wholly-owned subsidiary, XL Life Reinsurance (SAC) Ltd ("XLLR"), to GreyCastle for $570 million in cash (subsequent to the transaction, XLLR changed its name to GreyCastle Life Reinsurance (SAC) Ltd ("GCLR")). This transaction closed on May 30, 2014. As a result of the transaction, the Company ceded the majority of its life reinsurance business to GCLR via 100% quota share reinsurance (the "Life Retro Arrangements"). This transaction covered a substantial portion of our life reinsurance reserves. The Company ceased writing new life reinsurance contracts in 2009 and since that time has been managing the run-off of its life reinsurance operations ("Run-Off Life Operations"). The designated investments that support the Life Retro Arrangements on a funds withheld basis ("Life Funds Withheld Assets") are managed pursuant to agreed investment guidelines that meet the contractual commitments of the Company's ceding subsidiaries and applicable laws and regulations. All of the investment results associated with the Life Funds Withheld Assets ultimately accrue to GCLR.
Because the Company no longer shares in the risks and rewards of the underlying performance of the supporting invested assets, disclosures within the financial statement notes included herein separate the Life Funds Withheld Assets from the rest of the Company's investments.
As of May 30, 2014, gross future policy benefit reserves relating to the Life operations were approximately $5.2 billion. Subsequent to the completion of the GreyCastle transaction, the Company retained approximately $0.4 billion of these reserves, and recorded a reinsurance recoverable from GCLR of $4.8 billion. Under the terms of the transaction, the Company continues to own, on a funds withheld basis, assets supporting the Life Retro Arrangements consisting of cash, fixed maturity securities and accrued interest. Based upon the right of offset, the funds withheld liability owing to GCLR is recorded net of future policy benefit reserves recoverable, and is included within "Funds withheld on life retrocession arrangements (net of future policy benefit reserves recoverable)" on the consolidated balance sheets. The transaction resulted in an overall after-tax GAAP net loss of $621.3 million that is reflected in the unaudited consolidated statements of income for the nine months ended September 30, 2014.
As of September 30, 2015, gross future policy benefit reserves relating to the Run-Off Life Operations were approximately $4.3 billion, of which the Company retained approximately $0.4 billion, after consideration of its future policy benefit reserves recoverable from GCLR of approximately $3.9 billion. The net funds withheld liability included within "Funds withheld on life retrocession arrangements, net of future policy benefit reserves recoverable," was $0.9 billion. The Company continued to own $4.8 billion of assets supporting the Life Retro Arrangements.

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

Impact of Life Retro Arrangements	Three months ended September 30,		Nine Months Ended September 30,	
(U.S. dollars in thousands)	2015	2014	2015	2014
Underwriting profit (loss) (1)	$—	$3,711	$603	$3,711
Net investment income - Life Funds Withheld Assets	46,586	56,474	143,869	75,639
Net realized gains (losses) on investments sold - Life Funds Withheld Assets	53,780	2,022	174,555	2,646
Net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets	(149)	—	(18,932)	—
OTTI on investments - Life Funds Withheld Assets	(2,023)	(7,494)	(10,110)	(16,265)
Exchange gains (losses)	8,754	2,062	(5,932)	2,062
Other income and expenses	(121)	124	2,354	105
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	(126,140)	(201,264)	(116,333)	(218,810)
Net income (loss)	$(19,313)	$(144,365)	$170,074	$(150,912)
Change in net unrealized gains (losses) on investments - Life Funds Withheld Assets, net of tax	(33,569)	93,921	(317,500)	106,218
Change in adjustments related to future policy benefit reserves, net of tax	40,681	51,286	127,365	51,286
Change in cumulative translation adjustment - Life Funds Withheld Assets, net of tax	12,201	2,869	20,664	(2,881)
Total changes to other comprehensive income as a result of Life Retro Arrangements	$19,313	$148,076	$(169,471)	$154,623
Comprehensive income (loss)	$—	$3,711	$603	$3,711

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

As shown in the table above, although the Company's net income (loss) is subject to variability related to the Life Retro Arrangements, there is minimal net impact on the Company's comprehensive income in any period. The life retrocession embedded derivative value includes the interest income, unrealized gains and losses, and realized gains and losses from sales on the Life Funds Withheld Assets subsequent to May 30, 2014.

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4. Fair Value Measurements

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

The fair values for available for sale investments are generally sourced from third parties. The fair value of fixed income securities is based upon quoted market values where available, "evaluated bid" prices provided by third party pricing services ("pricing services") where quoted market values are not available, or by reference to broker quotes where pricing services do not provide coverage for a particular security. While the Company receives values for the majority of the investment securities it holds from pricing services, it is ultimately management's responsibility to determine whether the values received and recorded in the financial statements are representative of appropriate fair value measurements.

The Company performs regular reviews of the prices received from its third party valuation sources to assess if the prices represent a reasonable estimate of the fair value. This process is completed by investment and accounting personnel who are independent of those responsible for obtaining the valuations. The approaches taken by the Company include, but are not limited to, annual reviews of the controls of the external parties responsible for sourcing valuations, which are subjected to automated tolerance checks, quarterly reviews of the valuation sources and dates, and monthly reconciliations between the valuations provided by our external parties and valuations provided by our third party investment managers at a portfolio level.

Where broker quotes are the primary source of the valuations, sufficient information regarding the specific inputs utilized by the brokers is generally not available to support a Level 2 classification. The Company obtains the majority of broker quoted values from third party investment managers who perform independent verifications of these valuations using pricing matrices based upon information gathered by market traders. In addition, for the majority of these securities, the Company compares the broker quotes to independent valuations obtained from third party pricing vendors, which may also consist of broker quotes, to assess if the prices received represent a reasonable estimate of the fair value.

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

For further information about the Company's fair value measurements, see Item 8, Note 2(b), "Significant Accounting Policies - Fair Value Measurements," to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

(a) Fair Value Summary

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

September 30, 2015 (U.S. dollars in thousands)	Quoted Prices in Active	Significant Other Observable	Significant Other Unobservable	Collateral and Counterparty	Balance at September 30, 2015

	Markets for Identical Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)	Netting	
Assets					
Fixed maturities - Available for Sale ("AFS") - Excluding Life Funds Withheld Assets					
U.S. Government and Government-Related/Supported	$—	$4,298,723	$—	$—	$4,298,723
Corporate - Financials	—	3,062,530	10,000	—	3,072,530
Corporate - Non Financials (1)	—	6,850,318	5,272	—	6,855,590

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Residential mortgage-backed securities – Agency ("RMBS - Agency")	—	3,920,607	2,882	—	3,923,489
Residential mortgage-backed securities – Non-Agency ("RMBS - Non-Agency")	—	362,965	—	—	362,965
Commercial mortgage-backed securities ("CMBS")	—	850,084	—	—	850,084
Collateralized debt obligations ("CDOs")	—	2,500	407,663	—	410,163
Other asset-backed securities (1)	—	2,059,478	36,120	—	2,095,598
U.S. States and political subdivisions of the States	—	2,648,670	—	—	2,648,670
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	—	5,120,149	—	—	5,120,149
Total fixed maturities - AFS - Excluding Funds Withheld Assets, at fair value	$—	$29,176,024	$461,937	$—	$29,637,961
Equity securities, at fair value	478,815	490,891	—	—	969,706
Short-term investments, at fair value (1)(2)	—	546,020	—	—	546,020
Total investments AFS - Excluding Funds Withheld Assets	$478,815	$30,212,935	$461,937	$—	$31,153,687
Fixed maturities - Life Funds Withheld Assets					
U.S. Government and Government-Related/Supported	$—	$13,412	$—	$—	$13,412
Corporate - Financials	—	669,788	—	—	669,788
Corporate - Non Financials	—	1,480,112	—	—	1,480,112
RMBS – Agency	—	814	—	—	814
RMBS – Non-Agency	—	28,833	—	—	28,833
CMBS	—	141,166	—	—	141,166
Other asset-backed securities	—	162,871	—	—	162,871
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	—	1,141,365	—	—	1,141,365
Total fixed maturities - AFS - Life Funds Withheld Assets, at fair value	$—	$3,638,361	$—	$—	$3,638,361
Total investments - AFS, at fair value	$478,815	$33,851,296	$461,937	$—	$34,792,048
Fixed maturities - trading securities ("Trading")					
U.S. Government and Government-Related/Supported	$—	$4,610	$—	$—	$4,610
Corporate - Financials	—	219,767	—	—	219,767
Corporate - Non Financials	—	393,246	—	—	393,246
CMBS	—	4,982	—	—	4,982
Other asset-backed securities	—	19,872	—	—	19,872
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	—	342,746	—	—	342,746
Total fixed maturities - Trading, at fair value	$—	$985,223	$—	$—	$985,223
Cash equivalents (3)	940,303	455,699	—	—	1,396,002

Cash equivalents - Life Funds Withheld Assets (3)	1,440	86,840	—	—	88,280
Other investments (4)	—	1,051,558	278,222	—	1,329,780
Other assets (5)	—	59,231	14,884	(3,900)	70,215
Total assets accounted for at fair value	$1,420,558	$36,489,847	$755,043	$(3,900)	$38,661,548
Liabilities					
Funds withheld on life retrocession arrangements (net of future policy benefit reserves recoverable) (6)	$—	$468,187	$—	$—	$468,187
Financial instruments sold, but not yet purchased (7)	1,588	693	—	—	2,281
Other liabilities (5)	—	25,142	24,568	(3,900)	45,810
Total liabilities accounted for at fair value	$1,588	$494,022	$24,568	$(3,900)	$516,278

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

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

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(1) Included are certain medium term notes supported primarily by pools of European investment grade credit with varying degrees of leverage. The notes had a fair value of $74.3 million and $79.9 million and an amortized cost of $64.6 million and $68.4 million as of September 30, 2015 and December 31, 2014, respectively. These notes allow the investor to participate in cash flows of the underlying bonds including certain residual values, which could serve to either decrease or increase the ultimate values of these notes.

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

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

(4) The Other investments balance excludes certain structured transactions including certain investments in project finance transactions, and a payment obligation and liquidity financing provided to a structured credit vehicle as a part of a third party medium term note facility. These investments, which totaled $346.4 million as of September 30, 2015 and $354.4 million as of December 31, 2014, are carried at amortized cost. For further information, see Item 8, Note 8, "Other Investments," to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2014.

(5) Other assets and other liabilities include derivative instruments. The derivative balances included in each category are reported on a gross basis by level with a netting adjustment presented separately in the Collateral and Counterparty Netting column. The fair values of the individual derivative contracts are reported gross in their respective levels based on the fair value hierarchy. For further details regarding derivative fair values and associated collateral received or paid, see Note 7, "Derivative Instruments," to the Unaudited Consolidated Financial Statements.

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

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

(b) Level 3 Assets and Liabilities

The tables below present additional information about assets and liabilities measured at fair value on a recurring basis and for which Level 3 inputs were utilized to determine fair value. The tables present a reconciliation of the beginning and ending balances for the three and nine months ended September 30, 2015 and 2014 for all financial assets and liabilities measured at fair value using significant unobservable inputs (Level 3) at September 30, 2015 and 2014, respectively. The tables do not include gains or losses that were reported in Level 3 in prior periods for assets that were transferred out of Level 3 prior to September 30, 2015 and 2014, respectively. Gains and losses for assets and liabilities classified within Level 3 in the table below may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). Further, it should be noted that the following tables do not take into consideration the effect of offsetting Level 1 and 2 financial instruments entered into by the Company that are either economically hedged by certain exposures to the Level 3 positions or that hedge the exposures in Level 3 positions.

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

There were no significant transfers between Level 1 and Level 2 during each of the three and nine months ended September 30, 2015 and 2014.

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	Level 3 Assets and Liabilities - Three Months Ended September 30, 2015			
(U.S. dollars in thousands)	Corporate - Financials	Corporate - Non-Financials	RMBS - Agency	RMBS - Non Agency
Balance, beginning of period	$10,000	$5,554	$3,038	$—
Realized gains (losses)	—	(45)	—	—
Movement in unrealized gains (losses)	—	(1)	(2)	—
Purchases and issuances (1)	—	—	—	—
Sales	—	—	—	—
Settlements	—	(236)	(154)	—
Transfers into Level 3		—	—	—
Transfers out of Level 3	—	—	—	—
Fixed maturities to short-term investments classification change	—	—	—	—
Balance, end of period	$10,000	$5,272	$2,882	$—
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$(1)	$(2)	$—

	Level 3 Assets and Liabilities - Three Months Ended September 30, 2015			
(U.S. dollars in thousands)	CMBS	CDO	Other asset-backed securities	Non-US Sovereign Government, Provincial, Supranational and Government Related/Supported
Balance, beginning of period	$—	$484,171	$42,745	$—
Realized gains (losses)	—	(8,469)	553	—
Movement in unrealized gains (losses)	—	8,994	(976)	—
Purchases and issuances (1)	—	2,101	3,334	—
Sales	—	(56,576)	—	—
Settlements	—	(22,558)	(3,087)	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	(6,449)	—
Fixed maturities to short-term investments classification change	—	—	—	—
Balance, end of period	$—	$407,663	$36,120	$—
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$164	$(5)	$—

	Level 3 Assets and Liabilities - Three Months Ended September 30, 2015		
(U.S. dollars in thousands)	Short-term investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	$—	$255,672	$(9,753)
Realized gains (losses)	—	9,185	—

Movement in unrealized gains (losses)	—	(5,567)	69
Purchases and issuances (1)	—	30,519	—
Sales	—	(1,417)	
Settlements	—	(10,170)	—
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Fixed maturities to short-term investments classification change	—	—	—
Balance, end of period	$—	$278,222	$(9,684)
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$3,618	$69

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

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	Level 3 Assets and Liabilities - Three Months Ended September 30, 2014			
(U.S. dollars in thousands)	Corporate - Financials	Corporate - Non-Financials	RMBS - Agency	RMBS - Non Agency
Balance, beginning of period	$—	$3,933	$6,896	$11
Realized gains (losses)	—	3	(1)	—
Movement in unrealized gains (losses)	—	24	(7)	(1)
Purchases and issuances (1)	—	2,316	120	—
Sales	—	—	—	—
Settlements	—	—	(526)	—
Transfers into Level 3	—	766	—	—
Transfers out of Level 3	—	—	—	—
Fixed maturities to short-term investments classification change	—	—	—	—
Balance, end of period	$—	$7,042	$6,482	$10
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$27	$(8)	$—

	Level 3 Assets and Liabilities - Three Months Ended September 30, 2014			
(U.S. dollars in thousands)	CMBS	CDO	Other asset-backed securities	Non-US Sovereign Government, Provincial, Supranational and Government Related/Supported
Balance, beginning of period	$1,945	$732,824	$11,704	$—
Realized gains (losses)	—	707	3	—
Movement in unrealized gains (losses)	—	1,591	(113)	—
Purchases and issuances (1)	—	82,695	2,182	—
Sales	—	(7,489)	—	—
Settlements	(569)	(67,845)	(1,726)	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	(1,376)	—	—	—
Fixed maturities to short-term investments classification change	—	—	—	—
Balance, end of period	$—	$742,483	$12,050	$—
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$2,297	$(110)	$—

	Level 3 Assets and Liabilities - Three Months Ended September 30, 2014		
(U.S. dollars in thousands)	Short-term investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	$—	$124,475	$(18,910)
Realized gains (losses)	—	1,850	—

Movement in unrealized gains (losses)	—	2,790	710
Purchases and issuances (1)	—	22,308	—
Sales	—	—	—
Settlements	—	(4,888)	—
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Fixed maturities to short-term investments classification change	—	—	—
Balance, end of period	$—	$146,535	$(18,200)
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$4,639	$710

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

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	Level 3 Assets and Liabilities - Nine Months Ended September 30, 2015			
(U.S. dollars in thousands)	Corporate - Financials	Corporate - Non-Financials	RMBS - Agency	RMBS - Non Agency
Balance, beginning of period	$—	$5,894	$1,910	$—
Realized gains (losses)	—	(186)	—	—
Movement in unrealized gains (losses)	—	3	(4)	—
Purchases and issuances (1)	10,000	(123)	1,297	—
Sales	—	—	—	—
Settlements	—	(316)	(321)	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Fixed maturities to short-term investments classification change	—	—	—	—
Balance, end of period	$10,000	$5,272	$2,882	$—
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$(137)	$(2)	$—

	Level 3 Assets and Liabilities - Nine Months Ended September 30, 2015			
(U.S. dollars in thousands)	CMBS	CDO	Other asset-backed securities	Non-US Sovereign Government, Provincial, Supranational and Government Related/Supported
Balance, beginning of period	$—	$687,958	$5,288	$—
Realized gains (losses)	—	(8,209)	644	—
Movement in unrealized gains (losses)	—	16,994	(966)	—
Purchases and issuances (1)	—	14,042	43,962	—
Sales	—	(211,661)	—	—
Settlements	—	(91,461)	(6,359)	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	(6,449)	—
Fixed maturities to short-term investments classification change	—	—	—	—
Balance, end of period	$—	$407,663	$36,120	$—
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$4,889	$95	$—

	Level 3 Assets and Liabilities - Nine Months Ended September 30, 2015		
(U.S. dollars in thousands)	Short-term investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	$—	$185,083	$(9,764)
Realized gains (losses)	—	11,778	—

Movement in unrealized gains (losses)	—	(7,533)	80
Purchases and issuances (1)	—	103,822	—
Sales	—	(1,417)	—
Settlements	—	(13,511)	—
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Fixed maturities to short-term investments classification change	—	—	—
Balance, end of period	$—	$278,222	$(9,684)
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$4,246	$80

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

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(U.S. dollars in thousands)	Level 3 Assets and Liabilities - Nine Months Ended September 30, 2014 Corporate - Financials	Corporate - Non-Financials	RMBS - Agency	RMBS - Non Agency
Balance, beginning of period	$—	$31,573	$10,473	$9
Realized gains (losses)	—	158	5	—
Movement in unrealized gains (losses)	—	(72)	(20)	1
Purchases and issuances (1)	—	3,759	120	—
Sales	—	—	—	—
Settlements	—	(5,513)	(3,124)	—
Transfers into Level 3	—	766	—	—
Transfers out of Level 3	—	(23,629)	(972)	—
Fixed maturities to short-term investments classification change	—	—	—	—
Balance, end of period	$—	$7,042	$6,482	$10
Movement in total gains (losses) above relating to instruments still held at the reporting date	$—	$117	$(14)	$2

(U.S. dollars in thousands)	Level 3 Assets and Liabilities - Nine Months Ended September 30, 2014 CMBS	CDO	Other asset-backed securities	Non-US Sovereign Government, Provincial, Supranational and Government Related/Supported
Balance, beginning of period	$12,533	$710,253	$11,877	$—
Realized gains (losses)	3	3,163	(17)	—
Movement in unrealized gains (losses)	(3)	13,604	93	—
Purchases and issuances (1)	1,376	185,710	5,182	—
Sales	—	(48,313)	—	—
Settlements	(12,533)	(121,934)	(5,085)	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	(1,376)	—		