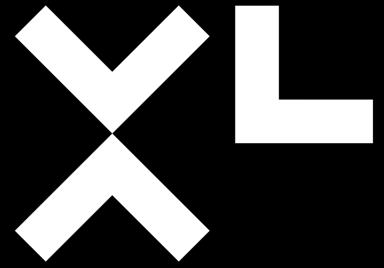
XL Group
Reinsurance



Consolidated Financial Statements

For the Year Ended 31 December 2014

XL Re Ltd

April 30, 2015

Independent Auditor's Report

To the Shareholder of XL Re Ltd

We have audited the accompanying consolidated financial statements of XL Re Ltd and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014 and December 31, 2013, and the related consolidated statements of income and comprehensive income, shareholder's equity and cash flows for the years then ended.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of XL Re Ltd and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

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XL Re Ltd
Consolidated Balance Sheets

(US dollars in thousands)

	December 31, 2014	December 31, 2013
Assets		
Investments available for sale:		
Fixed maturities at fair value (amortized cost 2014: $8,982,774; 2013: $6,905,004)	$ 9,999,093	$ 7,089,212
Equity securities at fair value (cost 2014: $397,541; 2013: $536,652)	452,259	606,621
Short-term investments at fair value (amortized cost 2014: $69,151; 2013: $63,295)	68,511	63,715
Total investments available for sale	10,519,863	7,759,548
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)	-	2,858,661
Investments in affiliates	668,059	628,029
Other investments	276,125	275,642
Total investments	11,465,218	11,521,880
Cash and cash equivalents	574,907	541,342
Restricted cash	165,483	-
Accrued investment income	138,689	156,855
Deferred acquisition expenses	88,962	121,384
Ceded unearned reinsurance premiums	49,907	44,516
Premiums receivable	563,083	562,145
Funds withheld	443,528	521,422
Reinsurance balances receivable	22,322	21,620
Unpaid losses and loss expenses recoverable	129,955	2,246,223
Receivable from investments sold	38,645	183
Amounts due from parent and affiliates	3,621	29,820
Deferred tax asset	-	3,432
Other assets	32,578	27,274
Total assets	**13,716,898**	**15,798,096**
Liabilities		
Unpaid losses and loss expenses	2,944,491	3,409,424
Deposit liabilities	671,169	708,792
Future policy benefit reserves	4,633,171	4,403,859
Funds withheld on life retrocession arrangements (net of future policy benefit reserves recoverable: 2014: $4,485,132; 2013: nil)	935,561	-
Unearned premiums	460,197	485,202
Reinsurance balances payable	110,125	2,442,931
Amounts due to affiliates	29,598	20,940
Payable for investments purchased	36,625	27,369
Deferred tax liability	58,920	119,577
Other liabilities	79,444	20,435
Total liabilities	**9,959,301**	**11,638,529**
Shareholder's Equity		
Ordinary shares (par value $10, authorized 10 million shares;		
issued and outstanding 10 million shares)	100,000	100,000
Additional paid in capital	2,874,592	2,874,592
Accumulated other comprehensive income	760,921	339,576
Retained earnings	(35,432)	838,234
Non-controlling interest in equity of consolidated subsidiaries	57,516	7,165
Total shareholder's equity	3,757,597	4,159,567
Total liabilities and shareholder's equity	**$ 13,716,898**	**15,798,096**

See accompanying notes to the consolidated financial statements

XL Re Ltd
Consolidated Statements of Income and Comprehensive Income

(US dollars in thousands)

	Year ended December 31, 2014	Year ended December 31, 2013
Revenues		
Net premiums earned	$ 1,339,428	$ 1,432,142
Net investment income		
Net investment income - excluding Life funds withheld assets	211,964	281,959
Net investment income - Life funds withheld assets	129,575	-
Total net investment income	341,539	281,959
Realized investment gains (losses):		
Net realized gains on investments sold - excluding Life funds withheld assets	69,251	19,003
Other-than-temporary impairments on investments - excluding Life funds withheld assets	(9,494)	(3,708)
Other-than-temporary impairments on investments transferred (from) other comprehensive income - excluding Life funds withheld assets	(147)	(1,169)
Net realized gains on investments sold - Life funds withheld assets	5,067	-
Other-than-temporary impairments on investments - Life funds withheld assets	(20,587)	-
Net unrealized (losses) on investments, trading securities still held - Life funds withheld assets	(9)	-
Total net realized gains on investments, and net unrealized gains on investments, trading still held - Life funds withheld assets	44,081	14,126
Net realized and unrealized (losses) gains on derivative instruments	(72,664)	93,374
Net realized and unrealized (losses) on life retrocessions embedded derivative and derivative instruments - Life funds withheld assets	(488,222)	-
Income from investment fund affiliates	38,653	62,576
Fee income and other	2,776	2,360
Total revenues	**1,205,591**	**1,886,537**
Expenses		
Net losses and loss expense incurred	509,094	674,007
Claims and policy benefits	640,858	227,955
Acquisition costs	207,963	234,096
Operational expenses	172,227	162,444
Foreign exchange (gains)	(32,577)	(27,800)
Interest Expense	24,300	28,766
Total expenses	**1,521,865**	**1,299,468**
(Loss) income before income tax and (loss) income from operating affiliates	(316,274)	587,069
Income from operating affiliates	51,049	52,560
Provision for income tax	(4,686)	(26,027)
Net Income	**(269,911)**	**613,602**
Non-controlling interests	(3,755)	582
Net Income attributable to ordinary shareholder	**(273,666)**	**614,184**
Net Income attributable to ordinary shareholder	(273,666)	614,184
Change in net unrealized gains (losses) on investments - excluding Life funds withheld assets, net of tax	115,063	(200,415)
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	(400,456)	(44,660)
Change in net unrealized gains on investments - Life funds withheld assets, net of tax	274,083	-
Change in net unrealized gains on affiliate and other investments, net of tax	12,496	18,099
Change in OTTI losses recognized in other comprehensive income, net of tax	1,661	3,530
Foreign currency translation adjustments, net of tax	(6,363)	(20,567)
Change in accumulated other comprehensive income	421,345	(244,013)
Comprehensive income	**$ 147,679**	**$ 370,171**

See accompanying notes to the consolidated financial statements

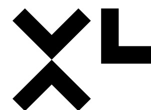
Consolidated Statements of Shareholder's Equity

(US dollars in thousands)

	Year ended December 31, 2014	Year ended December 31, 2013
Ordinary Shares		
Balance – beginning of year	$ 100,000	$ 100,000
Balance – end of year	**100,000**	**100,000**
Additional Paid in Capital		
Balance – beginning of year	2,874,592	2,874,592
Balance – end of year	**2,874,592**	**2,874,592**
Accumulated Other Comprehensive Income		
Balance – beginning of year	339,576	583,589
Change in net unrealized gains (losses) on investments - excluding Life funds withheld assets, net of tax	115,063	(200,415)
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	(400,456)	(44,660)
Change in net unrealized gains on investments - Life funds withheld assets, net of tax	274,083	-
Change in net unrealized gains on affiliate and other investments, net of tax	12,496	18,099
Change in OTTI losses recognized in other comprehensive income, net of tax	1,661	3,530
Foreign currency translation adjustments, net of tax	(6,363)	(20,567)
Balance – end of year	**760,921**	**339,576**
Retained Earnings		
Balance – beginning of year	838,234	614,050
Net income attributable to ordinary shareholder	(273,666)	614,184
Dividends on ordinary shares	(600,000)	(390,000)
Balance – end of year	**(35,432)**	**838,234**
Non-controlling Interest in Equity of Consolidated Subsidiaries		
Balance – beginning of year	7,165	-
Non-controlling interests - contribution	48,262	7,165
Non-controlling interests - distributions	(1,666)	-
Non-controlling interests	3,755	-
Balance – end of year	57,516	7,165
Total shareholder's equity	**$ 3,757,597**	**$ 4,159,567**

See accompanying notes to the consolidated financial statements

XL Re Ltd
Consolidated Statements Of Cash Flows



(US dollars in thousands)

	Year ended December 31, 2014	Year ended December 31, 2013
Cash flows provided by (used in) operating activities		
Net income	$ (269,911)	$ 613,602
Adjustments to reconcile net income to cash provided by operating activities (used in) operating activities		
Net realized (gains) on investments and net unrealized (gains) on investments, Trading - Life Funds Withheld Assets	(44,081)	(14,126)
Net realized and unrealized losses on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	488,222	-
Net realized and unrealized losses (gains) on derivatives instruments	72,664	(93,374)
Amortization of premiums on fixed maturities	34,029	38,064
(Income) from investment fund and operating affiliates	(89,702)	(115,136)
Depreciation	438	89
Accretion of deposit liabilities	24,274	28,592
Changes in:		
Unpaid losses and loss expenses	(173,501)	(27,120)
Future policy benefit reserves	100,006	(182,879)
Funds withheld on life retrocession arrangements, net	498,029	-
Unearned premiums	(496)	(7,194)
Premiums receivable	23,337	7,477
Unpaid losses and loss expenses and future policy benefit reserves recoverable	2,039,557	137,568
Ceded unearned reinsurance premiums	(14,377)	6,973
Reinsurance balances receivable	(6,267)	(5,979)
Deferred acquisition costs	29,370	7,181
Reinsurance balances payable	(2,373,032)	(316,997)
Accrued investment income	9,298	5,228
Defered tax liability - net	(57,225)	(27,837)
Other assets	18,502	21,989
Other liabilities	42,061	(24,479)
Total adjustments	621,106	(561,960)
Net cash provided by operating activities	**351,195**	**51,642**
Cash flows provided by (used in) investing activities		
Proceeds from sale of fixed maturities and short-term investments	976,996	1,199,857
Proceeds from redemption of fixed maturities and short-term investments	769,941	909,138
Proceeds from sale of equity securities	285,368	160,617
Purchase of fixed maturities and short-term investments	(1,794,085)	(1,870,522)
Purchase of equity securities	(155,175)	(239,259)
Proceeds from sale of investment in affiliates and other investments	106,349	187,578
Purchase of investment in affiliates and other investments, net of dividends received	(96,759)	(95,490)
Changes in restricted cash	(165,483)	-
Net amounts (paid) to parent and affiliates	(10,917)	(7,779)
Net cash provided by (used in) investing activities	**(83,765)**	**244,140**

XL Re Ltd
Consolidated Statements Of Cash Flows

(US dollars in thousands)

	Year ended December 31, 2014	Year ended December 31, 2013
Cash flows provided by (used in) financing activities		
Dividends paid on ordinary shares	(197,168)	(390,000)
Contributions from non-controlling interests	50,350	7,165
(Decrease) in deposit liabilities	(61,881)	(47,737)
Net cash (used in) financing activities	**(208,699)**	**(430,572)**
Effects of exchange rate changes on foreign currency cash	(25,166)	2,009
Increase (decrease) in cash and cash equivalents	58,731	(134,790)
Cash and cash equivalents - beginning of period	541,342	674,123
Cash and cash equivalents - end of period	**$ 574,907**	**$ 541,342**
Net taxes paid	20,759	42,427
Interest paid on notes payable and debt	-	-

See accompanying notes to the consolidated financial statements
For material non-cash transactions, see Note 24.

1. General

XL Re Ltd, through its operating subsidiaries (collectively the "Company") is organized under the laws of Bermuda. On August 7, 1998, the Company was formed through the merger of X.L. Global Reinsurance Company, Ltd ("XLGRe") and Mid Ocean Reinsurance Company Ltd. ("MORe"). The Company's ultimate parent is XL Group plc. incorporated in Ireland. 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. As a result, XL-Cayman became a wholly owned subsidiary of XL-Ireland.

Effective February 1999, the Company changed its name from X.L. Mid Ocean Reinsurance Company, Ltd. to XL Mid Ocean Reinsurance Ltd. Effective January 2001, the Company changed its name from XL Mid Ocean Reinsurance Ltd. to XL Re Ltd.

The Company is a leading reinsurer writing property, property catastrophe, casualty, marine, aviation, financial lines, life and various other reinsurance lines to insurers on a worldwide basis. The financial lines business is comprised of structured indemnity and credit products. The life reinsurance business consists primarily of term assurances, group life, critical illness cover, immediate annuities in payment and disability income business. The Company and its various subsidiaries operate mainly in Bermuda, Europe, and Latin America.

The Company has branches in London, Singapore, and Labuan. Effective January 1, 2007, the general insurance technical assets and liabilities of the London branch were transferred to an affiliate company as part of an organizational restructuring initiative. In March 2009, the Company placed its UK life reinsurance business, previously underwritten out of the London branch, into run-off. The Singapore and Labuan branches write general reinsurance, treaty and facultative business.

During 2014 and prior years the Company had quota share and excess of loss retrocession agreements with subsidiaries of XL Group plc operating worldwide. See Note 15, "Related Party Transactions", for further information on these agreements.

2. Significant Accounting Policies

A. Basis of Preparation

These consolidated financial statements include the accounts of the Company and all of its subsidiaries. These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). To facilitate period-to-period comparisons, certain reclassifications have been made to prior year consolidated financial statement amounts to conform to current year presentation. There was no effect on net income from this change in presentation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's most significant areas of estimation include:

- Unpaid losses and loss expenses and unpaid losses and loss expenses recoverable;
- Future policy benefit reserves;
- Deposit liabilities;
- Valuation and other than temporary impairments of investments;
- Income taxes; and
- Reinsurance premium estimates

While management believes that the amounts included in the consolidated financial statements reflect the Company's best estimates and assumptions, actual results could differ from these estimates.

The Company has performed an evaluation of subsequent events through April 30, 2015, which is the date the financial statements were issued.

B. Premiums and Acquisition Costs

Premiums written are recorded in accordance with the terms of the underlying policies. Reinsurance premiums written are recorded at the inception of the policy and are estimated based upon information received from ceding companies and any subsequent differences arising on such estimates are recorded in the period they are determined. For multi-year reinsurance treaties which are payable in annual installments, generally, only the initial annual installment is included as premiums written at policy inception due to the ability of the reinsured to commute or cancel coverage during the term of the policy. The remaining annual installments are included as premiums written at each successive anniversary date within the multi-year term.

Premiums are earned on a pro-rata basis over the period the coverage is provided. Unearned premiums represent the portion of premiums written applicable to the unexpired terms of policies in force. Net premiums earned are presented after deductions for reinsurance ceded, as applicable.

Mandatory reinstatement premiums are recognized and earned at the time a loss event occurs.

Life and annuity premiums from long duration contracts that transfer significant mortality or morbidity risks are recognized as revenue and earned when due from policyholders.

Acquisition costs, which vary with and are directly related to the acquisition of policies, consist primarily of commissions paid to brokers and cedants, and are deferred and amortized over the period that the premiums are earned. Acquisition costs are shown net of commissions earned on reinsurance ceded. Future earned premiums, the anticipated losses and other costs (and in the case of a premium deficiency, investment income) related to those premiums, are also considered in determining the level of acquisition costs to be deferred.

C. Funds Withheld

Funds withheld by reinsured companies represent insurance balances retained by ceding companies in accordance with contractual terms. The Company typically earns investment income on these balances during the period the funds are held.

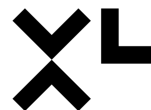
In addition, under the terms of the transaction as described in Note 3, "Retrocession of Life Reinsurance business," the Company has reinsured $4.4 billion of its future policy benefit reserves. Based upon the contractual right of offset, future policy benefit reserves recoverable are netted against the funds withheld liability owing. See Note 11, "Funds Withheld on Life Retrocession Arrangements," for further information.

D. Reinsurance

In the normal course of business, the Company seeks 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. Reinsurance premiums ceded are expensed (and any commissions recorded thereon are earned) on a monthly pro-rata basis over the period the reinsurance coverage is provided. Ceded unearned reinsurance premiums represent the portion of premiums ceded applicable to the unexpired term of policies in force. Mandatory reinstatement premiums ceded are recorded at the time a loss event occurs. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Provisions are made for estimated unrecoverable reinsurance.

The Company enters into reinsurance agreements with other companies in the normal course of business. All premium and loss-related balances related to reinsurance agreements are reported on a gross basis within our consolidated balance sheets, with the exception of the life retrocession arrangements written on a funds withheld basis. The future policy benefit reserves recoverable related to these retrocession arrangements are netted against the funds withheld liability owing to the counterparty on the consolidated balance sheets due to the contractual right of offset. See Note 3, "Retrocession of Life Reinsurance Business," for further information.

During the year ended December 31, 2014, the Company recorded $20 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. The Company evaluated the quantitative and qualitative aspects of this correction and concluded that the impact of recognizing it during the third quarter of 2014 was not material to the consolidated financial statements, nor is it material to previously issued consolidated financial statements in prior periods.



E. Fee Income and Other

Fee income and other includes fees received for reinsurance and product structuring services provided and is earned over the service period of the contract. Any adjustments to fees earned or the service period are reflected in income in the period when determined.

F. Derivative Instruments

The Company recognizes all derivatives as either assets or liabilities in the balance sheets and measures those instruments at fair value. The changes in fair value of derivatives are shown in the consolidated statement of income as "net realized and unrealized gains and losses on derivative instruments" unless the derivatives are designated as hedging instruments. The accounting for derivatives which are designated as hedging instruments is discussed below. Changes in fair value of derivatives may create volatility in the Company's results of operations from period to period. Amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) are offset against net fair value amounts recognized in the consolidated balance sheets for derivative instruments executed with the same counterparty under the same netting arrangement to the extent that the Company intends to settle the amounts on a net basis.

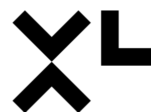
Derivative contracts can be exchange-traded or over-the-counter ("OTC"). Exchange-traded derivatives (futures and options) typically fall within Level 1 of the fair value hierarchy depending on whether they are deemed to be actively traded or not. OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources where an understanding of the inputs utilized in arriving at the valuations is obtained. Where models are used, the selection of a particular model to value an OTC derivative depends upon the contractual terms and specific risks inherent in the instrument as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, interest rate swaps and options, model inputs can generally be verified and model selection does not involve significant management judgment. Such instruments comprise the majority of derivatives held by the Company and are typically classified within Level 2 of the fair value hierarchy.

Certain OTC derivatives trade in less liquid markets with limited pricing information, or required model inputs which are not directly market corroborated, which causes the determination of fair value for these derivatives to be inherently more subjective. Accordingly, such derivatives are classified within Level 3 of the fair value hierarchy. The valuations of less standard or liquid OTC derivatives are typically based on Level 1 and/or Level 2 inputs that can be observed in the market, as well as unobservable Level 3 inputs. Level 1 and Level 2 inputs are regularly updated to reflect observable market changes. Level 3 inputs are only changed when corroborated by evidence such as similar market transactions, pricing services and/or broker or dealer quotations. The Company conducts its non-hedging derivatives activities in three main areas: investment related derivatives, credit derivatives and other non-investment related derivatives.

The Company uses derivative instruments, primarily interest rate swaps, to manage the interest rate exposure associated with certain assets and liabilities. These derivatives are recorded at fair value. On the date the derivative contract is entered into, the Company may designate the derivative as: a hedge of the fair value of a recognized asset or liability ("fair value" hedge); a hedge of the variability in cash flows of a forecasted transaction or of amounts to be received or paid related to a recognized asset or liability ("cash flow" hedge); or a hedge of a net investment in a foreign operation; or the Company may not designate any hedging relationship for a derivative contract.

Fair Value Hedges

Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge, along with the changes in the fair value of the hedged asset or liability that is attributable to the hedged risk, are recorded in current period earnings (through "net realized and unrealized gains and losses on derivative instruments") with any differences between the net change in fair



value of the derivative and the hedged item representing the hedge ineffectiveness. Periodic derivative net coupon settlements are recorded in net investment income with the exception of hedges of Company issued debt, which are recorded in interest expense. The Company may designate fair value hedging relationships where interest rate swaps are used to hedge the changes in fair value of certain fixed rate liabilities and fixed maturity securities due to changes in the designated benchmark interest rate.

Hedge Documentation and Effectiveness Testing

To qualify for hedge accounting treatment, a derivative must be highly effective in mitigating the designated changes in value or cash flow of the hedged item. At hedge inception, the Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking each hedge transaction. The documentation process includes linking derivatives that are designated as fair value, cash flow, or net investment hedges to specific assets or liabilities on the balance sheets or to specific forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. In addition, certain hedging relationships are considered highly effective if the changes in the fair value or discounted cash flows of the hedging instrument are within a ratio of 80-125% of the inverse changes in the fair value or discounted cash flows of the hedged item. Hedge ineffectiveness is measured using qualitative and quantitative methods. Qualitative methods may include comparison of critical terms of the derivative to the hedged item. Depending on the hedging strategy, quantitative methods may include the "Change in Variable Cash Flows Method," the "Change in Fair Value Method," the "Hypothetical Derivative Method" or the "Dollar Offset Method."

Discontinuance of Hedge Accounting

The Company discontinues hedge accounting prospectively when it determines that the derivative is no longer highly effective in offsetting changes in the fair value or cash flows of a hedged item; the derivative is designated as a hedging instrument; or the derivative expires or is sold, terminated or exercised. When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair-value hedge, the derivative continues to be carried at fair value on the balance sheets with changes in its fair value recognized in current period earnings through "net realized and unrealized gains and losses on derivative instruments." When hedge accounting is discontinued because the Company becomes aware that it is not probable that the forecasted transaction will occur, the derivative continues to be carried on the balance sheets at its fair value, and gains and losses that were accumulated in AOCI are recognized immediately in earnings.

For further details related to derivative instruments, see Note 16 "Derivative Instruments".

G. Total Investments

Investments Available for Sale

Investments that are considered available for sale (comprised of the Company's fixed maturities, equity securities and short-term investments) are carried at fair value. The fair values for available for sale investments are generally sourced from third parties. The fair values of fixed income securities are 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 or underwriter bid indications where pricing services do not provide coverage for a particular security. To the extent the Company believes current trading conditions represent distressed transactions, the Company may elect to utilize internally generated models. The pricing services use market approaches to perform valuations using primarily Level 2 inputs in the vast majority of valuations, or some form of discounted cash flow analysis, to obtain investment values for a small percentage of fixed income securities for which they provide a price. Pricing services indicate that they will only produce an estimate of fair value if there is objectively verifiable information available to produce a valuation. Standard inputs to the valuations provided by the pricing services listed in approximate order of priority for use when available include: reported trades, benchmark yields, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data. The pricing services may prioritize inputs differently on any given day for any security, and not all inputs listed are available for use in the evaluation process on any given day for each security evaluation; however, the pricing services also monitor market indicators, customer feedback through a price challenge process and industry and economic events. Information of this nature is a trigger to acquire further corroborating market data. When these inputs are not available, they identify "buckets" of similar securities (allocated

by asset class types, sectors, sub-sectors, contractual cash flows/structure, and credit rating characteristics) and apply some form of matrix or other modeled pricing to determine an appropriate security value which represents their best estimate as to what a buyer in the marketplace would pay for a security in a current sale. 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. It is common industry practice to utilize pricing services as a source for determining the fair values of investments where the pricing services are able to obtain sufficient market corroborating information to allow them to produce a valuation at a reporting date. In addition, in the majority of cases, although a value may be obtained from a particular pricing service for a security or class of similar securities, these values are corroborated against values provided by other pricing services.

Broker/dealer quotations are used to value fixed maturities where prices are unavailable from pricing services due to factors specific to the security such as limited liquidity, lack of current transactions, or trades only taking place in privately negotiated transactions. These are considered Level 3 valuations, as significant inputs utilized by brokers may be 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.

Prices provided by independent pricing services and independent broker quotes can vary widely even for the same security. The use of different methodologies and assumptions may have a material effect on the estimated fair value amounts.

The net unrealized gain or loss on investments, net of tax, is included in "accumulated other comprehensive income (loss)."

Short-term investments include investments due to mature within one year from the date of purchase and are valued using the same external factors and in the same manner as fixed income securities.

Equity securities include investments in open end mutual funds and shares of publicly traded alternative funds. The fair value of equity securities is based upon quoted market values (Level 1), or monthly net asset value statements provided by the investment managers upon which subscriptions and redemptions can be executed (Level 2).

All investment transactions are recorded on a trade date basis. Realized gains and losses on sales of equities and fixed income investments are determined on a first-in, first-out basis. Investment income is recognized when earned and includes interest and dividend income together with the amortization of premium and discount on fixed maturities and short-term investments, and is recorded net of related investment expenses. Amortization of discounts on fixed maturities includes amortization to expected recovery values for investments that have previously been recorded as other than temporarily impaired. For mortgage-backed securities, and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary. Prepayment fees or call premiums that are only payable to the Company when a security is called prior to its maturity are earned when received and reflected in net investment income.

Investments Trading ("Trading")

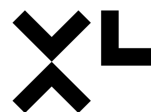
Investments for which the company has elected the fair value option are classified as Trading. Trading securities are carried at fair value with changes included in "Net realized gains (losses) on investments sold." Interest and dividend income from trading securities are included as a component of "Net investment income - Life Funds Withheld Assets" as all trading securities are held in support of the life retrocession arrangements. See Note 3, "Retrocession of Life Reinsurance business," for information regarding the reinsurance arrangement.

Investments Held to Maturity

Investments classified as held to maturity include securities for which the Company has the ability and intent to hold to maturity and are carried at amortized cost. For details, see Note 5 "Investments".

Investments Related to Life Retrocession Arrangements written on a Funds Withheld Basis

The designated investments that support the life retrocession arrangements written on a funds withheld basis ("Life Funds Withheld Assets") entered into in connection with the sale of our life reinsurance subsidiary are included within "Total investments available for sale". Investment results for these 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. See Note 3, "Retrocession of Life Reinsurance business," for information regarding the reinsurance arrangement.



Changes in the fair value of the embedded derivative associated with these life retrocession arrangements are recorded in "Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets" on the consolidated statements of income. The fair value of the embedded derivative is included within "Funds withheld on life retrocession arrangements, net of future policy benefit reserves recoverable" on the consolidated balance sheets.

Investment in Affiliates

Investments in which the Company has significant influence over the operating and financial policies of the investee are classified as investments in affiliates on the Company's balance sheets and are accounted for under the equity method of accounting. Under this method, the Company records its proportionate share of income or loss from such investments in its results for the period as well as its portion of movements in certain of the investee shareholders' equity balances. When financial statements of the affiliate are not available on a timely basis to record the Company's share of income or loss for the same reporting periods as the Company, the most recently available financial statements are used. This lag in reporting is applied consistently. Distributions received from affiliates representing returns on invested capital are recorded as operating cash flows, while distributions representing returns of invested capital or proceeds upon sale of all or a portion of an affiliate are recorded as investing cash flows.

The Company generally records its alternative and private investment fund affiliates on a one-month and three-month lag, respectively, and its operating affiliates on a three-month lag. Significant influence is generally deemed to exist where the Company has an investment of 20% or more in the common stock of a corporation or an investment of 3% or more in closed end funds, limited partnerships, LLCs or similar investment vehicles. Significant influence is considered for other strategic investments on a case-by-case basis. Investments in affiliates are not subject to fair value measurement guidance as they are not considered to be fair value measured investments under GAAP. However, impairments associated with investments in affiliates that are deemed to be other-than-temporary are calculated in accordance with fair value measurement guidance and appropriate disclosures included within the financial statements during the period the losses are recorded.

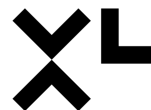
Other Investments

Contained within this asset class are equity interests in investment funds, limited partnerships and unrated tranches of collateralized debt obligations for which the Company does not have sufficient rights or ownership interests to follow the equity method of accounting. The Company accounts for equity securities that do not have readily determinable market values at estimated fair value as it has no significant influence over these entities. Also included within other investments are structured transactions, which are carried at amortized cost.

Fair values for other investments, principally other direct equity investments, investment funds and limited partnerships, are primarily based on the net asset value provided by the investment manager, the general partner or the respective entity, recent financial information, available market data and, in certain cases, management judgment if required. These entities generally carry their trading positions and investments, the majority of which have underlying securities valued using Level 1 or Level 2 inputs, at fair value as determined by their respective investment managers; accordingly, these investments are generally classified as Level 2. Private equity investments are classified as Level 3. The net unrealized gain or loss on investments, net of tax, is included in "Accumulated other comprehensive income." Any unrealized loss in value considered by management to be other-than-temporary is charged to income in the period in which it is determined.

H. Other-than-Temporary-Impairments ("OTTI") of Available for Sale and Held to Maturity Securities

The Company's process for identifying declines in the fair value of investments that are other-than-temporary involves consideration of several factors. These 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 the Company intends to sell such securities. In addition, the authoritative guidance requires that OTTI for certain asset backed and mortgage backed securities is 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 the Company's analysis of the above factors results in the Company's 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 the Company intends to sell an impaired debt security, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis, the impairment is other-than-temporary and is recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost.

In instances in which the Company determines that a credit loss exists but the Company does not intend to sell the security, and it is not more likely than not that the Company will be required to sell the security before the anticipated recovery of its remaining amortized cost basis, the OTTI is separated into (1) the amount of the total impairment related to the credit loss and (2) the amount of the total impairment related to all other factors (i.e. the noncredit portion). The amount of the total OTTI related to the credit loss is recognized in earnings and the amount of the total OTTI related to all other factors is recognized in accumulated other comprehensive loss. The total OTTI is presented in the income statement with an offset for the amount of the total OTTI that is recognized in accumulated other comprehensive loss. Absent the intent or requirement to sell a security, if a credit loss does not exist, any impairment is considered to be temporary.

The noncredit portion of any OTTI losses on securities classified as available for sale is recorded as a component of other comprehensive income with an offsetting adjustment to the carrying value of the security. The fair value adjustment could increase or decrease the carrying value of the security. The noncredit portion of any OTTI losses recognized in accumulated other comprehensive loss for debt securities classified as held to maturity would be accreted over the remaining life of the debt security (in a pro rata manner based on the amount of actual cash flows received as a percentage of total estimated cash flows) as an increase in the carrying value of the security until the security is sold, the security matures, or there is an additional OTTI that is recognized in earnings.

In periods subsequent to the recognition of an OTTI loss, the other-than-temporarily impaired debt security is accounted for as if it had been purchased on the measurement date of the OTTI at an amount equal to the previous amortized cost basis less the credit-related OTTI recognized in earnings. For debt securities for which credit-related OTTI is recognized in earnings, the difference between the new cost basis and the cash flows expected to be collected is accreted into interest income over the remaining life of the security in a prospective manner based on the estimated amount and timing of future estimated cash flows.

With respect to securities where the decline in value is determined to be temporary and the security's amortized cost is not written down, a subsequent decision may be made to sell that security and realize a loss. Subsequent decisions on security sales are made within the context of overall risk monitoring, changing information, market conditions generally and assessing value relative to other comparable securities. Day-to-day management of the Company's investment portfolio is outsourced to third party investment manager service providers. While these investment manager service providers may, at a given point in time, believe that the preferred course of action is to hold securities with unrealized losses that are considered temporary until such losses are recovered, the dynamic nature of the portfolio management may result in a subsequent decision to sell the security and realize the loss, based upon a change in market and other factors described above. The Company believes that subsequent decisions to sell such securities are consistent with the classification of the Company's portfolio as available for sale.

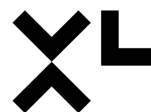
There are risks and uncertainties associated with determining whether declines in the fair value of investments are other-than-temporary. These include subsequent significant changes in general economic conditions as well as specific business conditions affecting particular issuers, the Company's liability 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 the Company's 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. For further details on the factors considered in evaluation of OTTI see Note 5, "Investments."

I. Cash and Cash Equivalents

Cash equivalents include fixed interest deposits placed with a maturity of under 90 days when purchased. Bank deposits are not considered to be fair value measurements and as such are not subject to the authoritative guidance on fair value measurement disclosures. Money market funds are classified as Level 1 as these instruments are considered actively traded; however, certificates of deposit are classified as Level 2.

J. Restricted Cash

Restricted cash relates mainly to funds held on behalf of GreyCastle Life Reinsurance (SAC) Ltd under a retrocession arrangement. For more information, refer to Note 4, "Fair Value Measurements".



K. Foreign Currency Translation

Assets and liabilities of foreign operations whose functional currency is not the U.S. dollar are translated at prevailing year end exchange rates. Revenue and expenses of such foreign operations are translated at average exchange rates during the year. The net effect of the translation adjustments for foreign operations, net of applicable deferred income taxes, as well as any gains or losses on intercompany balances for which settlement is not planned or anticipated in the foreseeable future, are included in "accumulated other comprehensive income."

Monetary assets and liabilities denominated in currencies other than the functional currency of the applicable entity are revalued at the exchange rate in effect at the balance sheet date and revenues and expenses are translated at the exchange rate on the date the transaction occurs with the resulting foreign exchange gains and losses on settlement or revaluation recognized in income.

Non-monetary assets and liabilities denominated in currencies other than the functional currency of the applicable entity are converted at historical exchange rates that were in effect when the transaction occurred.

L. Losses and Loss Expenses

Unpaid losses and loss expenses include reserves for reported unpaid losses and loss expenses and for losses incurred but not reported. The reserve for reported unpaid losses and loss expenses for the Company's property and casualty operations is established by management based on claims reported from insureds or amounts reported from ceding companies, and represent the estimated ultimate cost of events or conditions that have been reported to or specifically identified by the Company.

The reserve for losses incurred but not reported is estimated by management based on loss development patterns determined by reference to the Company's underwriting practices, the policy form, type of program and historical experience. The Company's actuaries employ a variety of generally accepted methodologies to determine estimated ultimate loss reserves, including the "Bornhuetter-Ferguson incurred loss method" and frequency and severity approaches.

Certain workers' compensation and certain UK bodily injury liabilities are considered fixed and determinable and are discounted.

Management believes that the reserves for unpaid losses and loss expenses are sufficient to cover losses that fall within coverages assumed by the Company. However, there can be no assurance that losses will not exceed the Company's total reserves. The methodology of estimating loss reserves is periodically reviewed to ensure that the assumptions made continue to be appropriate and any adjustments resulting from such reviews are reflected in income in the year in which the adjustments are made.

M. Deposit Liabilities

Contracts entered into by the Company that are not deemed to transfer significant underwriting and/or timing risk are accounted for as deposits, whereby liabilities are initially recorded at an amount equal to the assets received. The Company uses a portfolio rate of return of equivalent duration to the liabilities in determining risk transfer. An initial accretion rate is established based on actuarial estimates whereby the deposit liability is increased to the estimated amount payable over the term of the contract.

The deposit accretion rate is the rate of return required to fund expected future payment obligations (this is equivalent to the "best estimate" of future cash flows), which are determined actuarially based upon the nature of the underlying indemnifiable losses. Accretion of the liability is recorded as interest expense.

The Company periodically reassesses the estimated ultimate liability. Any changes to this liability are reflected as adjustments to interest expense to reflect the cumulative effect of the period the contract has been in force, and by an adjustment to the future accretion rate of the liability over the remaining estimated contract term.

N. Future Policy Benefit Reserves

The Company estimates the present value of future policy benefits related to long duration contracts using assumptions for investment yields, mortality, and expenses, including a provision for adverse deviation.

The assumptions used to determine future policy benefit reserves are best estimate assumptions that are determined at the inception of the contracts and are locked-in throughout the life of the contract unless a premium deficiency develops. As the experience on the contracts emerges, the assumptions are reviewed. If such review would produce reserves in excess of those currently held, then the locked-in assumptions will be revised and a claim and policy benefit is recognized at that time. The Company includes the cost of reinsurance in its premium deficiency considerations.

Certain life insurance and annuity contracts provide the holder with a guarantee that the benefit received upon death will be no less than a minimum prescribed amount. The contracts are accounted for in accordance with the authoritative guidance on Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Separate Accounts, which requires that the best estimate of future experience be combined with actual experience to determine the benefit ratio used to calculate the policy benefit reserve.

O. Income Taxes

The Company utilizes 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. The realizability of deferred tax assets 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.

The Company recognizes the tax benefit from an uncertain tax position taken only if it is more likely than not that the tax position will be sustained upon examination by the relevant tax authority, based on our interpretation of and judgment over tax law. The Company reviews its uncertain tax positions on a quarterly basis. Tax positions that meet the more likely than not threshold are measured using a probability weighted approach, whereby the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement is recognized. The Company recognizes interest and penalties on underpaid tax in income tax expense.

For the Company's branch operations investment income is allocated and taxable in certain jurisdictions. The method of allocating this income may be different for tax reporting as compared to GAAP. The Company records the tax effects of this allocation entirely through operations.

P. Fair Value Measurements

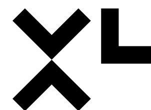
Financial Instruments Subject to Fair Value Measurements

Accounting guidance over fair value measurements requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the "exit price"). Instruments that the Company owns ("long positions") are marked to bid prices and instruments that the Company has sold but not yet purchased ("short positions") are marked to offer prices. Fair value measurements are not adjusted for transaction costs.

Basis of Fair Value Measurement

Fair value measurements accounting guidance also establishes a fair value hierarchy that prioritizes the inputs to the respective valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The three levels of the fair value hierarchy are described further below:

- **Level 1**–Quoted prices in active markets for identical assets or liabilities (unadjusted); no blockage factors.
- **Level 2**–Other observable inputs (quoted prices in markets that are not active or inputs that are observable either directly or indirectly) – include quoted prices for similar assets/liabilities (adjusted) other than quoted prices in Level 1; quoted prices in markets that are not active; or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.
- **Level 3**–Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.



Details on assets and liabilities that have been included under the requirements of authoritative guidance on fair value measurements to illustrate the bases for determining the fair values of these items held by the Company are included in each respective significant accounting policy section of this note.

Fair values of investments and derivatives are based on published market values if available, estimates of fair values of similar issues, or estimates of fair values provided by independent pricing services and brokers. Fair values of financial instruments for which quoted market prices are not available or for which the company believes current trading conditions represent distressed markets are based on estimates using present value or other valuation techniques. The fair values estimated using such techniques are significantly affected by the assumptions used, including the discount rates and the estimated amounts and timing of future cash flows. In such instances, the derived fair value estimates cannot be substantiated by comparison to independent markets and are not necessarily indicative of the amounts that would be realized in a current market exchange.

Q. Recent Accounting Pronouncements

In August 2014, the FASB issued an accounting standards update concerning the evaluation of an entity's ability to continue as a going concern. Under this new guidance, in connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. Substantial doubt exists when it is probable that the entity will be unable to meet its obligations as they become due. When management identifies conditions or events that raise substantial doubt about an entity's ability to continue as a going concern, management should consider whether its plans that are intended to mitigate those conditions or events will alleviate the substantial doubt. The mitigating effect of management's plans should be considered only to the extent that it is probable that the plans will be implemented and if implemented, it is probable that the plans will be effective. If conditions or events raise substantial doubt, the entity should disclose the conditions or events, management's evaluation of their significance in relation to the ability to meet its obligations, and management's plans to mitigate the conditions or events along with whether substantial doubt has been alleviated. The guidance is effective for annual periods ending after December 15, 2016, and interim and annual periods thereafter. The Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on its financial condition, results of operations or cash flows.

In July 2013, the FASB issued an accounting standards update concerning the presentation of unrecognized tax benefits. The objective of the guidance is to improve the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance seeks to reduce the diversity in practice by providing guidance on the presentation of unrecognized tax benefits to better reflect the manner in which an entity would settle, at the reporting date, any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The guidance is effective for annual and interim reporting periods beginning after December 15, 2013, with both early adoption and retrospective application permitted. The Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Company's financial condition, results of operations or cash flows.

R. Non-Controlling Interests

Non-controlling shareholders' interests are presented separately in the Company's Consolidated Balance Sheets and Consolidated Statements of Shareholders' Equity as required under GAAP. The net loss (income) attributable to non-controlling interests is presented separately in the Company's Consolidated Statements of Comprehensive Income. Refer to Note 13, "Variable Interest Entities" for further discussion of non-controlling interests in the Company.

S. Variable Interest Entities ("VIEs")
Investments or other interests that absorb portions of an entity's expected losses or receive portions of the entity's expected residual returns are called variable interests. Entities in which the equity investors, as a group, do not have the characteristic of a controlling financial interest, or that do not have sufficient equity at risk to allow them to finance their own activities without additional financial support are referred to as VIEs.

A VIE must be consolidated by its primary beneficiary, which is the variable interest holder that is determined to have the controlling financial interest in the entity. Based upon the nature of the VIE, this is either the entity that has both: a) the power to direct the VIE's activities that most significantly impact its economic performance, and b) the obligation to absorb losses or receive benefits of the VIE that could potentially be significant to it; or it is the reporting entity that will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. Refer to Note 13, "Variable Interest Entities," for further discussion of the Company's interests in VIEs.

3. Retrocession of Life Reinsurance business

During 2014 the internal life reinsurance agreements written with an affiliate of the Company, were commuted. On May 1, 2014, an affiliate 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"), (subsequent to the transaction, XLLR changed its name to GreyCastle Life Reinsurance (SAC) Ltd ("GCLR")), to GreyCastle for $570 million in cash. 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 covers 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").

Certain securities within fixed maturities were reclassified from held to maturity to available for sale in conjunction with this transaction. See Note 5, "Investments" 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 Company 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.

At May 30, 2014, gross future policy benefit reserves relating to the Life operations were approximately $5.2 billion. Subsequent to the completion of this transaction the Company has retained approximately $0.1 billion of these reserves, and has recorded a reinsurance recoverable from GCLR of $4.9 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, including a gain recognized on the commutation of the internal life reinsurance agreement noted above, resulted in an overall after-tax U.S. GAAP net loss of $492.1 million.

At December 31, 2014, gross future policy benefit reserves relating to the Run-Off Life Operations were approximately $4.6 billion, of which the Company retained approximately $0.1 billion, after consideration of its future policy benefit reserves recoverable from GCLR of $4.5 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 $5.4 billion of assets supporting the Life Retro Arrangements. See Note 11, "Funds Withheld on Life Retrocession Arrangements", for information about the net funds withheld liability.

The impact of the Life Retro Arrangements on the Company's results from the completion of the transaction on May 30, 2014 through December 31, 2014 was as follows:

Impact of Life Retro Arrangements

(US dollars in thousands)	May 30 to December 31, 2014
Underwriting profit (loss) (1)	$ 11,649
Net investment income - Life Funds Withheld Assets	129,575
Net realized gains on investments sold - Life Funds Withheld Assets	5,067
Net unrealized (losses) on investments, Trading - Life Funds Withheld Assets	(9)
OTTI on investments - Life Funds Withheld Assets	(20,587)
Exchange losses	10,099
Other income and expenses	(1,610)
Net realized and unrealized (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	(488,222)
Net (loss)	(354,038)
Change in net unrealized gains 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 (1)	$ 11,649

(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.

4. Fair Value Measurements

Fair Value Summary

The following tables set forth the Company's assets and liabilities that were accounted for at fair value as of December 31, 2014 and December 31, 2013 by level within the fair value hierarchy (for further information, see Note 2(P), "Significant Accounting Policies – Fair Value Measurements"):

December 31, 2014 *(US dollars in thousands)*	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Collateral and Counterparty Netting**	**Balance as of December 31, 2014**
Assets					
Fixed maturities - Available for Sale ("AFS") - Excluding Life Funds Withheld Assets					
US Government and Government-Related/Supported	$ -	$ 490,719	$ -	$ -	$ 490,719
Corporate (1)	-	2,030,111	994	-	2,031,105
Residential mortgage-backed securities – Agency	-	616,053	-	-	616,053
Residential mortgage-backed securities – Non Agency	-	20,766	-	-	20,766
Commercial mortgage-backed securities	-	117,147	-	-	117,147
Collateralized debt obligations	-	584	967	-	1,551
Other asset-backed securities	-	116,250	993	-	117,243
US States and political subdivisions of the States	-	1,901	-	-	1,901
Non-US Sovereign Government, Supranational and Government-Related	-	1,421,044	-	-	1,421,044
Total fixed maturities – AFS – Excluding Life Funds Withheld Assets, at fair value	-	4,814,575	2,954	-	4,817,529
Equity securities, at fair value	244,602	207,657	-	-	452,259
Short-term investments, at fair value (1) (2)	-	68,511	-	-	68,511
Total investments AFS – Excluding Life Funds Withheld Assets	244,602	5,090,743	2,954	-	5,338,299
Fixed Maturities – Life Funds Withheld Assets					
US Government and Government-Related/Supported	-	18,724	-	-	18,724
Corporate(1)	-	2,817,980	-	-	2,817,980
Residential mortgage-backed securities – Agency	-	3,782	-	-	3,782
Residential mortgage-backed securities – Non Agency	-	85,335	-	-	85,335
Commercial mortgage-backed securities	-	193,167	-	-	193,167
Other asset-backed securities	-	273,541	-	-	273,541
Non-US Sovereign Government, Supranational and Government-Related	-	1,789,035	-	-	1,789,035
Total fixed maturities – AFS –Life Funds Withheld Assets, at fair value	-	5,181,564	-		5,181,564
Total investments – AFS, at fair value	244,602	10,272,307	2,954	-	10,519,863
Fixed Maturities – Trading securities					
Corporate	-	1,171	-	-	1,171
Total fixed maturities – Trading, at fair value	-	1,171	-	-	1,171
Cash equivalents (3)	235,307	142,196	-	-	377,503
Cash equivalents – Life Funds Withheld Assets (3)	460	132,738	-	-	133,198
Other investments	-	263,905	12,220	-	276,125
Other assets (5)(6)	-	1,124	13,663	(574)	14,213
Total assets accounted for at fair value	**480,369**	$ 10,813,441	**28,837**	**(574)**	**$ 11,322,073**

December 31, 2014 *(US dollars in thousands)*		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Collateral and Counterparty Netting		Balance as of December 31, 2014
Liabilities										
Funds Withheld on life retrocession agreement (net of future policy benefit reserves recoverable)		-		450,831		-		-		450,831
Financial instruments sold, but not yet purchased (4)		4,737		25,669		-		-		30,406
Other liabilities (5)(6)		-		4,699		13,603		(574)		17,728
Total liabilities accounted for at fair value	$	**4,737**	$	**481,199**	$	**13,603**	$	**(574)**	$	498,965

December 31, 2013 *(US dollars in thousands)*		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Collateral and Counterparty Netting		Balance as of December 31, 2013
Assets										
US Government and Government-Related/Supported	$	-	$	506,517	$	-	$	-	$	506,517
Corporate (1)		-		3,476,590		27,910		-		3,504,500
Residential mortgage-backed securities – Agency		-		694,213		208		-		694,421
Residential mortgage-backed securities – Non-Agency		-		33,450		-		-		33,450
Commercial mortgage-backed securities		-		178,968		246		-		179,214
Collateralized debt obligations		-		581		950		-		1,531
Other asset-backed securities		-		285,914		1,272		-		287,186
US States and political subdivisions of the States		-		1,750		-		-		1,750
Non-US Sovereign Government, Supranational and Government-Related		-		1,880,643		-		-		1,880,643
Total fixed maturities, at fair value (1)(2)		-		7,058,626		30,586		-		7,089,212
Equity securities, at fair value		294,444		312,177		-		-		606,621
Short-term investments, at fair value		-		61,700		2,015		-		63,715
Total investments available for sale		294,444		7,432,503		32,601		-		7,759,548
Cash equivalents (3)		174,658		124,731		-		-		299,389
Other investments		-		275,642		-		-		275,642
Other assets (5)(6)		-		5,211		-		-		5,211
Total assets accounted for at fair value		**469,102**		**7,838,087**		**32,601**		**-**		**8,339,790**
Liabilities										
Financial instruments sold, but not yet purchased (4)		-		28,861		-		-		28,861
Other liabilities (5)(6)		-		1,768		-		-		1,768
Total liabilities accounted for at fair value	$	**-**	$	**30,629**	$	**-**	$	**-**	$	**30,629**

(1) Included within Corporate 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 nil and $38.6 million and an amortized cost of nil and $37.0 million at December 31, 2014 and 2013 respectively. These notes allow the investor to partipate in cash flows of the underlying bonds including certain residual values, which could serve to either decrease or increase the ultimate value of these notes.

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

(3) Cash equivalents balances subject to fair value measurement include certificates of deposit and money market funds. Operating cash balances are not subject to fair value measurement guidance. In 2014, included within cash and cash equivalents is restricted cash of $165.5 million.

(4) Financial instruments sold, but not yet purchased represent "short sales" and are included within "net payable for investments purchased" on the balance sheet.

(5) Other assets and other liabilities include derivative instruments.

(6) The derivative balances included in each category above are reported on a gross basis by level with a netting adjustment presented separately in the "Collateral and Counterparty Netting" column. The Company often enters into different types of derivative contracts with a single counterparty and these contracts are covered under a netting agreement.

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 year ended December 31, 2014 and 2013 for all financial assets and liabilities measured at fair value using significant unobservable inputs (Level 3) at December 31, 2014 and 2013, 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 December 31, 2014 and 2013. 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 and other valuations sourced from brokers that are considered Level 3.

There were no significant transfers between Level 1 and Level 2 during the years ended December 31, 2014 and 2013.

December 31, 2014 *(US dollars in thousands)*	**Corporate**	**Residential mortgage-backed securities–Agency**	**Residential mortgage-backed securities – Non-Agency**	**Commercial mortgage-backed securities**	**Collateralized debt obligations**	**Other asset backed securities**	**Short-term Investments**	**Other Investments**	**Derivative Contracts – Net**
Balance, beginning of period	$ 27,910	$ 208	$ -	$ 246	$ 950	$ 1,272	$ 2,015	$ -	$ -
Realized gains (losses)	82	-	-	-	-	(9)	-	-	-
Movement in unrealized gains (losses)	(311)	-	-	-	17	47	(15)	-	60
Purchases and issuances	1,060	-	-	-	-	-	-	-	-
Sales and settlements	(12,334)	-	-	(246)	-	(317)	(2,000)	-	-
Transfers into Level 3	-	-	-	-	-	-	-	12,220	-
Transfers out of Level 3	(15,413)	(208)	-	-	-	-	-	-	-
Balance, end of period	994	-	-	-	967	993	-	12,220	60
Movement in total gains (losses) above relating to instruments still held at the reporting date	**$ (66)**	**$ -**	**$ -**	$ -	$ 17	$ 38	$ -	$ -	$ 60

December 31, 2013 (US dollars in thousands)	Corporate	Residential mortgage-backed securities– Agency	Residential mortgage-backed securities – Non-Agency	Commercial mortgage-backed securities	Collateralized debt obligations	Other asset backed securities	Short-term Investments	Other Investments	Derivative Contracts – Net
Balance, beginning of period	$ 25,263	$ 1,651	$ -	$ 497	$ 890	$ 1,483	$ -	$ -	$ -
Realized gains (losses)	7	-	-	-	-	(7)	(16)	-	-
Movement in unrealized gains (losses)	879	1	-	(1)	60	(15)	15	-	-
Purchases and issuances	10,621	-	-	-	-	-	2,016	-	-
Sales and settlements	(7,000)	(32)	-	(250)	-	(189)	-	-	-
Transfers into Level 3	-	-	-	-	-	-	-	-	-
Transfers out of Level 3	(1,860)	(1,412)	-	-	-	-	-	-	-
Balance, end of period	27,910	208	-	246	950	1,272	2,015	-	-
Movement in total gains (losses) above relating to instruments still held at the reporting date	**$ 953**	**$ 1**	**$ -**	**$ -**	**$ 17**	**$ (23)**	**$ (2)**	**$ -**	**$ -**

Fixed Maturities and Short Term Investments

The Company's Level 3 assets consist primarily of Corporate securities, for which non-binding broker quotes are the primary source of the valuations. Sufficient information regarding the specific inputs utilized by the brokers was not available to support a Level 2 classification. The Company obtains the majority of broker quotes for these Corporate securities from third party pricing vendors. Although the Company does not have access to the specific unobservable inputs that may have been used in the fair value measurements of these Corporate securities provided by brokers, we would expect that the significant inputs considered are, probability of default, loss severity in the event of default, recovery rates, liquidity premium and reinvestment rates. Significant increases (decreases) in any of those inputs in isolation could result in a significantly different fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity.

Financial Instruments Not Carried at Fair Market Value

Authoritative guidance over disclosures about the fair value of financial instruments requires additional disclosure of fair value information for financial instruments not carried at fair value in both interim and annual reporting periods. Certain financial instruments, particularly insurance contracts, are excluded from these fair value disclosure requirements. The carrying values of cash and cash equivalents, accrued investment income, net receivable from investments sold, other assets, net payable for investments purchased, other liabilities and other financial instruments not included below approximated their fair values. The following table includes financial instruments for which the carrying value differs from the estimated fair values at December 31, 2014 and 2013. All of these fair value estimates are considered Level 2 fair value measurements. The fair values for fixed maturities held to maturity are provided by third party pricing vendors and significant valuation inputs for all other items included were based upon market data obtained from sources independent of the Company, and are subject to the same control environment previously described.

	As of December 31, 2014		As of December 31, 2013	
(US dollars in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed maturities, held to maturity	$ -	$ -	$ 2,858,661	$ 3,131,235
Financial Assets	**-**	**-**	**2,858,661**	**3,131,235**
Deposit Liabilities	671,169	757,503	708,792	763,124
Financial Liabilities	**$ 671,169**	**$ 757,503**	**$ 708,792**	**$ 763,124**

Deposit liabilities include obligations under structured insurance and reinsurance transactions. For purposes of fair value disclosures, the Company determined the estimated fair value of the deposit liabilities by assuming a discount rate equal to the appropriate US Treasury rate plus 29.5 basis points and the appropriate US Treasury rate plus 56.7 basis points at December 31, 2014 and 2013, respectively. The discount rate incorporates the Company's own credit risk into the determination of estimated fair value.

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

5. Investments

A. Net Investment Income

Net investment income is derived from the following sources:

(US dollars in thousands)	2014	2013
Fixed maturities, short-term investments and cash equivalents excluding Life Funds Withheld Assets	$ 262,079	$ 289,592
Fixed maturities, short-term investments and cash equivalents - Life Funds Withheld Assets	129,575	-
Equity securities and other investments	14,217	14,110
Funds withheld	(30,414)	12,243
Total gross investment income	375,457	315,945
Investment expenses	(33,918)	(33,986)
Net investment income	**$ 341,539**	**$ 281,959**

B. Fixed Maturities, Short-Term Investments and Equity Securities

Classification of Fixed Income Securities

During the second quarter of 2014 fixed maturities with a carrying value of $2.8 billion were reclassified from held to maturity ("HTM") to AFS in conjunction with the sale of XLLR. Gross unrealized gains and gross unrealized losses, net of tax, of $424.9 million and nil, respectively, related to these securities were recognized in other comprehensive income on the date of transfer. For certain annuity contracts that are subject to the Life Retro Arrangements, policy benefit reserves were historically increased for the impact of changes in unrealized gains on investments supporting such contracts as if the gains had been realized, with a corresponding entry to other comprehensive income ("Shadow Adjustments"). In conjunction with the sale of XLLR and the related reclassification of securities from HTM to AFS, the Company recorded an additional gross charge of $440.5 million, net of tax, as a reduction of comprehensive income for such Shadow Adjustments on the date of the transfer. See Note 22, "Accumulated Other Comprehensive Income" for further information.

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 the Company no longer shares in the risks and rewards of the underlying performance of the Life Funds Withheld Assets, disclosures within the financial statements and accompanying notes included herein separate the Life Funds Withheld Assets from the rest of the Company's investments.

Amortized Cost and Fair Value Summary

The cost (amortized cost for fixed maturities and short-term investments), fair value, gross unrealized gains, gross unrealized (losses), including OTTI recorded in accumulated other comprehensive income ("AOCI") of the Company's available for sale ("AFS") and held to maturity ("HTM") investments at December 31, 2014 and December 31, 2013 were as follows:

December 31, 2014		Included in AOCI			
(US dollars in thousands)	**Cost or Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Non-credit related OTTI (1)**
Fixed maturities - AFS - Excluding Life Funds Withheld Assets					
US Government and Government -Related/Supported	$ 480,563	$ 18,456	$ (8,300)	$ 490,719	$ -
Corporate	1,961,141	96,102	(26,138)	2,031,105	-
Residential mortgage-backed securities – Agency	597,879	19,552	(1,378)	616,053	-
Residential mortgage-backed securities – Non-Agency	18,680	2,875	(789)	20,766	1,291
Commercial mortgage-backed securities	115,098	3,968	(1,919)	117,147	447
Collateralized debt obligations	1,600	-	(49)	1,551	-
Other asset-backed securities	116,508	2,964	(2,229)	117,243	2
US States and political subdivisions of the States	1,913	69	(81)	1,901	-
Non-US Sovereign Government, Supranational and Government-Related	1,388,053	56,768	(23,777)	1,421,044	-
Total fixed maturities - AFS - Excluding Life Funds Withheld Assets	**4,681,435**	**200,754**	**(64,660)**	**4,817,529**	**1,740**
Total short-term investments	**69,151**	**21**	**(661)**	**68,511**	**-**
Total equity securities	**397,541**	**70,438**	**(15,720)**	**452,259**	**-**
Total investments – AFS – Excluding Life Funds Witheld Assets	**5,148,127**	**271,213**	**(81,041)**	**5,338,299**	**1,740**
Fixed maturities – AFS – Life Funds Withheld Assets					
US Government and Government -Related/Supported	14,866	3,858	-	18,724	-
Corporate	2,407,849	410,131	-	2,817,980	-
Residential mortgage-backed securities – Agency	3,301	481	-	3,782	-
Residential mortgage-backed securities – Non-Agency	71,075	14,260	-	85,335	-
Commercial mortgage-backed securities	168,886	24,281	-	193,167	-
Other asset-backed securities	238,168	35,373	-	273,541	-
Non-US Sovereign Government, Supranational and Government-Related	1,397,194	391,842	-	1,789,035	-
Total fixed maturities – AFS – Life Funds Withheld Assets	4,301,339	880,226	-	5,181,564	-
Total fixed maturities – AFS	**$ 9,449,466**	**$ 1,151,439**	$ (81,041)	**$ 10,519,863**	**$ 1,740**

December 31, 2014		
(US dollars in thousands)	**Cost or Amortized Cost**	**Fair Value**
Fixed maturities –Trading – Life Funds Withheld Assets Corporate	$ 1,180	$ 1,171
Total investments – Trading – Life Funds Witheld Assets	**$ 1,180**	**$ 1,171**

(1) Represents the non-credit component of OTTI losses, adjusted for subsequent sales of securities. It does not include the change in fair value subsequent to the impairment measurement date.

December 31, 2013

(US dollars in thousands)	Cost or Amortized Cost	Included in AOCI: Gross Unrealized Gains	Included in AOCI: Gross Unrealized Losses	Fair Value	Non-credit related OTTI (1)
Fixed maturities - AFS					
US Government and Government -Related/Supported (2)	$ 503,780	$ 15,005	$ (12,268)	$ 506,517	$ -
Corporate (3) (4)	3,343,361	191,783	(30,644)	3,504,500	(1,438)
Residential mortgage-backed securities – Agency	692,896	9,669	(8,144)	694,421	-
Residential mortgage-backed securities – Non-Agency	30,714	4,116	(1,380)	33,450	(1,517)
Commercial mortgage-backed securities	177,350	6,165	(4,301)	179,214	(503)
Collateralized debt obligations	1,600	-	(69)	1,531	-
Other asset-backed securities	281,492	9,706	(4,012)	287,186	-
US States and political subdivisions of the States	1,900	32	(182)	1,750	-
Non-US Sovereign Government, Supranational and Government-Related (2)	1,871,911	43,852	(35,120)	1,880,643	-
Total fixed maturities - AFS	**6,905,004**	**280,328**	**(96,120)**	**7,089,212**	**(3,458)**
Total short-term investments	**63,295**	**820**	**(400)**	**63,715**	**-**
Total equity securities	**536,652**	**84,106**	**(14,137)**	**606,621**	**-**
Total investments – available for sale	**7,504,951**	**365,254**	**(110,657)**	**7,759,548**	**(3,458)**
Fixed maturities - HTM					
US Government and Government -Related/Supported (2)	10,993	629	-	11,622	-
Corporate (3) (4)	1,387,230	112,915	(1,071)	1,499,074	-
Residential mortgage-backed securities – Non-Agency	66,987	4,985	-	71,972	-
Commercial mortgage-backed securities	144,924	11,864	-	156,788	-
Other asset-backed securities	106,540	6,908	-	113,448	-
Non-US Sovereign Government, Supranational and Government-Related (2)	1,141,987	136,986	(642)	1,278,331	-
Total fixed maturities - HTM	**$ 2,858,661**	**$ 274,287**	$ (1,713)	**$ 3,131,235**	$ -

(1) Represents the non-credit component of OTTI losses, adjusted for subsequent sales of securities. It does not include the change in fair value subsequent to the impairment measurement date.

(2) US Government and Government-Related/Supported and Non-US Sovereign Government, Supranationals and Government-Related/Supported includes government-related securities with an amortized cost of $636.6 million and fair value of $659.3 million and US Agencies with an amortized cost of $54.9 million and fair value of $60.1 million.

(3) Included within Corporate are certain medium term notes supported primarily by pools of European investment grade credit with varying degrees of leverage. The notes have a fair value of $38.6 million and an amortized cost of $37.0 million. 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.

(4) Included within Corporate are Tier One and Upper Tier Two securities, representing committed term debt and hybrid instruments senior to the common and preferred equities of the financial institutions. These securities have a fair value of $248.1 million and an amortized cost of $245.7 million at December 31, 2014.

At December 31, 2014 and December 31, 2013, approximately 3.0% and 2.6% respectively, of the Company's fixed income investment portfolio at fair value was invested in securities which were below investment grade or not rated. Approximately 23.4% and 9.4% of the gross unrealized losses in the Company's fixed income securities portfolio, excluding Life Funds Withheld Assets, at December 31, 2014 and 2013, respectively, related to securities that were below investment grade or not rated.

Gross Unrealized Losses

The following is an analysis of how long each of those available for sale securities at December 31, 2014 had been in a continual unrealized loss position:

December 31, 2014	**Less than 12 months**		**Equal to or greater than 12 months**	
(US dollars in thousands)	**Fair Value**	**Gross Unrealized Losses (1)**	**Fair Value**	**Gross Unrealized Losses (1)**
Fixed maturities and short-term investments:				
US Government and Government Related/Supported	$ 80,032	$ (2,501)	$ 70,853	$ (5,799)
Corporate	424,081	(21,417)	107,241	(4,721)
Residential mortgage-backed securities – Agency	15,271	(195)	54,668	(1,183)
Residential mortgage-backed securities – Non-Agency	109	(13)	9,767	(776)
Commercial mortgage-backed securities	4,282	(128)	25,324	(1,791)
Collateralized debt obligations	-	-	1,551	(49)
Other asset-backed securities	22,203	(838)	14,069	(1,391)
US States and political subdivisions of the States	-	-	227	(81)
Non-US Sovereign Government, Supranational and Government-Related	269,663	(7,703)	263,079	(16,274)
Total fixed maturities	**815,541**	**(32,595)**	**546,779**	**(32,065)**
Total equity securities	**$ 102,178**	**$ (15,646)**	**$ 380**	**$ (74)**

(1) On securities impacted by the April 1, 2009 changes to OTTI values, length of time of impairment is measured from the point at which securities returned to a net unrealized loss position (ie from April 1, 2009).

The following is an analysis of how long each of those available for sale securities at December 31, 2013 had been in a continual unrealized loss position:

December 31, 2013	**Less than 12 months**		**Equal to or greater than 12 months**	
(US dollars in thousands)	**Fair Value**	**Gross Unrealized Losses (1)**	**Fair Value**	**Gross Unrealized Losses (1)**
Fixed maturities and short-term investments:				
US Government and Government Related/Supported	$ 191,282	$ (9,961)	$ 18,185	$ (2,317)
Corporate (2) (3)	519,089	(15,849)	233,427	(14,800)
Residential mortgage-backed securities – Agency	316,300	(6,136)	26,535	(2,008)
Residential mortgage-backed securities – Non-Agency	1,348	(50)	10,512	(1,330)
Commercial mortgage-backed securities	59,627	(2,119)	12,888	(2,182)
Collateralized debt obligations	-	-	1,531	(69)
Other asset-backed securities	22,628	(338)	44,583	(3,674)
US States and political subdivisions of the States	1,007	(182)	-	-
Non-US Sovereign Government, Supranational and Government-Related	628,034	(18,414)	203,039	(17,091)
Total fixed maturities	**1,739,315**	**(53,049)**	**550,700**	**(43,471)**
Total equity securities	**143,390**	**(14,101)**	**-**	**(36)**
Fixed maturities - HTM:				
Corporate (2) (3)	49,021	(1,044)	642	(27)
Other asset-backed securities	-	-	-	-
Non-US Sovereign Government, Supranational and Government-Related	-	-	11,894	(642)
Total fixed maturities	$ 49,021	$ **(1,044)**	$ 12,536	$ (669)

(1) On securities impacted by the April 1, 2009 changes to OTTI values, length of time of impairment is measured from the point at which securities returned to a net unrealized loss position (i.e. from April 1, 2009).

(2) Included within Corporate are certain medium term notes supported primarily by pools of European investment grade credit with varying degrees of leverage. The notes have a fair value of $38.6 million and an amortized cost of $37.0 million. 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.

(3) Included within Corporate are Tier One and Upper Tier Two securities, representing committed term debt and hybrid instruments senior to the common and preferred equities of the financial institutions. These securities have a fair value of $248.1 million and an amortized cost of $245.7 million at December 31, 2013.

The contractual maturities of AFS and HTM fixed income securities at December 31, 2014 and December 31, 2013 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2014		December 31, 2013	
(US dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Fixed maturities – available for sale				
Due less than one year	$ 482,098	$ 479,934	$ 545,196	$ 547,258
Due after 1 through 5 years	1,845,297	1,865,519	2,223,099	2,295,110
Due after 5 through 10 years	1,056,631	1,086,357	1,673,594	1,706,140
Due after 10 years	447,644	512,959	1,279,063	1,344,902
	3,831,670	3,944,769	5,720,952	5,893,410
Residential mortgage-backed securities – Agency	597,879	616,053	692,896	694,421
Residential mortgage-backed securities – Non- Agency	18,680	20,766	30,714	33,450
Commercial mortgage-backed securities	115,098	117,147	177,350	179,214
Collateralized debt obligations	1,600	1,551	1,600	1,531
Other asset-backed securities	116,508	117,243	281,492	287,186
Total mortgage and asset-backed securities	849,765	872,760	1,184,052	1,195,802
Total fixed maturities – AFS – Excluding Life Funds Withheld Assets	**4,681,435**	**4,817,529**	**6,905,004**	**7,089,212**
Fixed maturities – AFS –Life Funds Withheld Assets				
Due less than one year	117,048	125,326	-	-
Due after 1 through 5 years	638,526	685,787	-	-
Due after 5 through 10 years	1,004,698	1,165,348	-	-
Due after 10 years	2,059,637	2,649,279	-	-
	3,819,909	4,625,740	-	-
Residential mortgage-backed securities – Agency	3,301	3,782	-	-
Residential mortgage-backed securities – Non- Agency	71,075	85,335	-	-
Commercial mortgage-backed securities	168,886	193,167	-	-
Collateralized debt obligations				
Other asset-backed securities	238,168	273,541	-	-
Total mortgage and asset-backed securities	481,430	555,825	-	-
Total fixed maturities – AFS – Life Funds Withheld Assets	$ 4,301,339	$ 5,181,564	-	-
Total fixed maturities – AFS	**$ 8,982,774**	**$ 9,999,093**	**$ 6,905,004**	**$ 7,089,212**

(US dollars in thousands)	December 31, 2014 Amortized Cost	December 31, 2014 Fair Value	December 31, 2013 Amortized Cost	December 31, 2013 Fair Value
Fixed maturities – Trading – Life Funds Withheld Assets				
Due less than one year	-	-	-	-
Due after 1 through 5 years	-	-	-	-
Due after 5 through 10 years	1,180	1,171	-	-
Due after 10 years	-	-	-	-
	1,180	1,171	-	-
Total fixed maturities – Trading	$ 1,180	$ **1,171**	-	-
Fixed maturities – HTM				
Due less than one year	-	-	65,471	66,766
Due after 1 through 5 years	-	-	240,795	255,322
Due after 5 through 10 years	-	-	455,784	492,095
Due after 10 years	-	-	1,778,160	1,974,844
	-	-	2,540,210	2,789,027
Residential mortgage-backed securities – Non- Agency	-	-	66,987	71,972
Commercial mortgage-backed securities	-	-	144,924	156,788
Other asset-backed securities	-	-	106,540	113,448
Total mortgage and asset-backed securities	-	-	318,451	342,208
Total fixed maturities – HTM	-	-	$ 2,858,661	$ **3,131,235**

OTTI Considerations

Under final authoritative accounting guidance, a debt security for which amortized cost exceeds fair value is deemed to be other-than-temporarily impaired if it meets either of the following conditions: (a) the Company intends to sell, or it is more likely than not that the Company will be required to sell, the security before a recovery in value, or (b) the Company does not expect to recover the entire amortized cost basis of the security. Other than in a situation in which the Company has the intent to sell a debt security or more likely than not will be required to sell a debt security, the amount of the OTTI related to a credit loss on the security is recognized in earnings, and the amount of the OTTI related to other factors (e.g., interest rates, market conditions, etc.) is recorded as a component of OCI. The net amount recognized in earnings ("credit loss impairment") represents the difference between the amortized cost of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment ("NPV"). The remaining difference between the security's NPV and its fair value is recognized in OCI. Subsequent changes in the fair value of these securities are included in OCI unless a further impairment is deemed to have occurred.

In the scenario where the Company has the intent to sell a security in which its amortized cost exceeds its fair value, or it is more likely than not it will be required to sell such a security, the entire difference between the security's amortized cost and its fair value is recognized in earnings.

The determination of credit losses is based on detailed analyses of underlying cash flows and other considerations. Such analyses require the use of certain assumptions to develop the estimated performance of underlying collateral. Key assumptions used include, but are not limited to, items such as RMBS default rates based on collateral duration in arrears, severity of losses on default by collateral class, collateral reinvestment rates and expected future general corporate default rates.

Factors considered for all securities on a quarterly basis in determining that a gross unrealized loss is not other-than-temporarily impaired include management's consideration of current and near term liquidity needs and other available sources of funds, an evaluation of the factors and time necessary for recovery and an assessment of whether the Company has the intention to sell or considers it more likely than not that it will be forced to sell a security.

Credit Loss Impairments

The following table sets forth the amount of credit loss impairments on fixed income securities held by the Company as of the dates indicated, for which a portion of the OTTI loss was recognized in OCI, and the corresponding changes in such amounts.

December 31, 2014 *(US dollars in thousands)*	**OTTI related to credit losses recognized in earnings**
Balance, January 1, 2014	$ 26,356
Credit loss impairment recognized in the current period on securities not previously impaired	12
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(19,534)
Credit loss impairments previously recognized on securities impaired to fair value during the period	-
Additional credit loss impairments recognized in the current period on securities previously impaired	1,337
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(1,444)
Balance, December 31, 2014	$ 6,727

December 31, 2013 *(US dollars in thousands)*	**OTTI related to credit losses recognized in earnings**
Balance, January 1, 2013	$ 27,705
Credit loss impairment recognized in the current period on securities not previously impaired	138
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(1,731)
Credit loss impairments previously recognized on securities impaired to fair value during the period	-
Additional credit loss impairments recognized in the current period on securities previously impaired	1,826
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(1,582)
Balance, December 31, 2013	$ 26,356

C. Realized and Unrealized Gains and Losses

The following represents an analysis of net realized gains (losses) and the change in unrealized gains (losses) on investments during the year:

(US dollars in thousands)	2014	2013
Net realized gains (losses):		
Fixed maturities, short-term investments, cash and cash equivalents:		
Gross realized gains	$ 35,624	$ 38,191
Gross realized (losses) on investments sold	(11,510)	(38,160)
OTTI on investments, net of amounts transferred to other comprehensive income	(723)	(4,861)
Net realized gains (losses)	23,391	(4,830)
Equity securities:		
Gross realized gains	45,285	17,620
Gross realized (losses) on investments sold	(7,344)	(2,189)
OTTI on investments, net of amounts transferred to other comprehensive income	(8,918)	(16)
Net realized gains	29,023	15,415
Other investments:		
Gross realized gains	8,335	3,541
Gross realized (losses) on investments sold	(1,139)	-
OTTI on investments, net of amounts transferred to other comprehensive income	-	-
Net realized gains	7,196	3,541
Net realized gains on investments – Excluding Life Funds Withheld Assets	59,610	14,126
Fixed maturities, short-term investments, cash and cash equivalents – Life Funds Withheld Asset:		
Gross realized gains	7,925	-
Gross realized (losses) on investments sold	(2,859)	-
Net unrealized (losses) on investments, Trading still held – Life Funds Withheld Assets	(9)	-
OTTI on investments, net of amounts transferred to other comprehensive income	(20,586)	-
Net realized (losses) on investments – Life Funds Withheld Assets	(15,529)	-
Net realized gains on investments	44,081	14,126
Net realized and unrealized (losses) gains on derivative instruments	(72,664)	93,374
Net realized (losses) gains on investments and net realized and unrealized (losses) gains on investment related derivative instruments	(28,583)	107,500
Change in unrealized gains (losses):		
Fixed maturities and short-term investments, available for sale	(49,174)	(244,122)
Fixed maturities – AFS Life Funds Withheld Assets	883,309	-
Fixed maturities, held to maturity	(272,574)	(175,618)
Equity securities	(15,251)	48,980
Affiliates and other investments	12,496	18,098
Net change in unrealized gains (losses) on investments	558,806	(352,662)
Total net realized gains (losses) on investments, net realized and unrealized gains (losses) on investment related derivative instruments, and net change in unrealized gains (losses) on investments	$ 530,223	$ **(245,162)**

Net realized losses on investments in the twelve months ended December 31, 2014 included net realized losses of approximately $16.5 million related to the write-down of certain of the Company's fixed income, equity and other investments, as compared to $4.9 million for the year ended December 31, 2013. In addition, included in the net realized losses noted above are net realized losses of $39.4 million from sales of investments for the year ended December 31, 2014, as compared to $40.3 million for the year ended December 31, 2013.

D. Collateral

The Company participates in eight letter of credit facilities that are available to the XL Group of companies ("XL Group"). Letters of credit in the amount of $1 billion were outstanding as at December 31, 2014 (2013: $1 billion), of which $739 million (2013: $722 million) is secured against investments pledged specifically to three Letter of Credit facilities.

Certain of the Company's invested assets are held in trust and pledged in support of its reinsurance liabilities as well as credit facilities. Such pledges are largely required by the Company's operations that are "non-admitted" under US state insurance regulations, in order for the US cedant to receive statutory credit for reinsurance. Also, certain deposit liabilities and annuity contracts require the use of pledged assets.

At December 31, 2014 and 2013, the Company had $7.3 billion and $7.0 billion in pledged assets, respectively.

6. Investment in Affiliates and Other

The Company's investment portfolio includes certain investments over which the Company is considered to have significant influence and which, therefore, are accounted for using the equity method. Significant influence is generally deemed to exist where the Company has an investment of 20% or more in the common stock of a corporation or an investment of 3% or more in closed end funds, limited partnerships, LLCs or similar investment vehicles. The Company generally records its alternative and private investment fund affiliates on a one-month and three-month lag, respectively, and its operating affiliates on a three-month lag. Investments in alternative and private equity funds in which the Company generally owns less than 3% are accounted for as "Other Investments."

(US dollars in thousands)	**2014**	**2013**
Investment fund affiliates	$ 390,073	$ 392,116
Operating affiliates	277,986	235,913
Total investment affiliates	$ 668,059	$ 628,029

Investment Fund Affiliates

The Company has invested in certain closed end funds, certain limited partnerships, LLCs and similar investment vehicles, including funds managed by certain of its investment manager affiliates. Collectively, these investments in funds, partnerships and other vehicles are classified as "investment fund affiliates." The Company's equity investment in investment fund affiliates and equity in net income (loss) from such affiliates as well as certain summarized financial information of the investee as a whole are included below:

Year ended December 31, 2014	**XL Re Ltd Investment**		**Combined Funds**	
(US dollars in thousands)	**Carrying Value**	**Equity in Net Income (Loss) for the Year**	**Weighted Average XL Percentage Ownership**	**Total Net Assets (Estimated) (2)**
Alternative Funds (1):				
Directional	$ 154,852	1,384	8.2%	$ 1,897,835
Event Driven	96,621	11,445	2.7%	3,618,581
Multi-Style	470	99	19.5%	2,410
Total alternative funds	251,943	12,928	4.6%	5,518,826
Private equity funds (1)	138,130	25,725	20.3%	678,878
Total investment fund affiliates	$ 390,073	$ 38,653	**6.3%**	$ 6,197,704

December 31, 2013	XL Re Ltd Investment		Combined Funds	
(US dollars in thousands)	Carrying Value	Equity in Net Income (Loss) for the year	Weighted Average XL Percentage Ownership	Total Net Assets (Estimated) (2)
Alternative Funds (1):				
Arbitrage	$ -	$ 8	-	$ -
Directional	157,417	14,058	6.6%	2,395,247
Event Driven	85,243	26,122	2.8%	3,085,358
Multi-Style	374	48	15.5%	2,410
Total alternative funds	243,034	40,236	4.4%	5,483,015
Private equity funds (1)	149,082	22,340	24.9%	597,706
Total investment fund affiliates	**$ 392,116**	**$ 62,576**	**6.4%**	**$ 6,080,721**

(1) The Company generally records its alternative fund affiliates on a one month lag and its private equity fund affiliates on a three month lag.
(2) Total estimated net assets are generally as at November 30 and September 30, respectively.

Operating Affiliates

The Company has invested in investment and (re)insurance affiliates and investments in investment management companies' securities or other forms of ownership interests. Collectively, these investments are classified as "operating affiliates."

The Company's equity investment in operating affiliates and equity in net income (loss) from such affiliates as well as certain summarized financial information of the investee as a whole are included below:

December 31, 2014	XL Re Ltd Investment		Combined Investee Summarized Financial Data (Estimated) (1)			
(US dollars in thousands)	Carrying Value	Equity in Net Income for the year	Total Assets	Total Liabilites	Total Revenue	Net Income
Operating affiliates:						
Other strategic operating affiliates	$ 262,989	$ 47,465	$ 2,336,462	$ 1,584,811	$ 1,039,974	$ 146,020
Investment manager affiliates (2)	14,997	3,584	140,518	33,679	57,223	42,937
Total operating affiliates	$ 277,986	$ 51,049	$ 2,476,980	$ 1,618,490	$ 1,097,197	$ 188,957

December 31, 2013	XL Re Ltd Investment		Combined Investee Summarized Financial Data (Estimated) (1)			
(US dollars in thousands)	Carrying Value	Equity in Net Income for the year	Total Assets	Total Liabilites	Total Revenue	Net Income
Operating affiliates:						
Other strategic operating affiliates	$ 220,682	$ 44,899	$ 2,107,951	$ 1,454,956	$ 886,967	$ 131,944
Investment manager affiliates (2)	15,231	7,661	116,527	22,893	67,062	24,537
Total operating affiliates	$ 235,913	$ 52,560	$ 2,224,478	$ 1,477,849	$ 954,029	$ 156,481

(1) The Company generally records its operating affiliates on a one quarter lag. Estimated assets and liabilities are generally at September 30, 2014 and 2013, respectively.
(2) During the years ended December 31, 2014 and 2013 the Company received distributions from its Investment Manager Affiliates of approximately $2.8 million and $8.4 million respectively.

In certain investments, the carrying value is different from the share of the investee's underlying net assets. The differences represent goodwill on acquisition, OTTI recorded with respect to the investment, or differences in the retained capital accounts of the various equity holders (including the Company).

See Note 17(B) "Commitments and Contingencies – Investments in Affiliates" for further information regarding commitments related to investments in affiliates.

Certain funds have a lock-up period and/or may also have the ability to impose a redemption gate. A lock-up period refers to the initial amount of time an investor is contractually required to remain invested before having the ability to redeem. Typically, the imposition of a gate delays a portion of the requested redemption, with the remaining portion settled in cash shortly after the redemption date.

The carrying value of the Company's holdings in funds that are subject to lockups and/or that have gate provisions in their governing documents as at December 31, 2014 and 2013 was $124.1 million and $139.6 million, respectively. The carrying value of the Company's holdings in funds where a gate was imposed as at December 31, 2014 and 2013 was nil.

Certain funds may be allowed to invest a portion of their assets in illiquid securities, such as private equity or convertible debt. In such cases, a common mechanism used is a side-pocket, whereby the illiquid security is assigned to a separate memorandum capital account or designated account. Typically, the investor loses its redemption rights in the designated account. Only when the illiquid securities in the side-pocket are sold, or otherwise deemed liquid by the fund, may investors redeem that portion of their interest that has been 'side-pocketed'. As at December 31, 2014 and 2013, the carrying value of our funds held in side-pockets were $12.2 million and $13.3 million, respectively. The underlying assets within these positions are generally expected to be liquidated over a period of approximately two to four years.

Other Strategic Operating Affiliates

The Company's strategic operating affiliates included an investment in ARX Holding Corporation "ARX" of approximately 40% at December 31, 2014 and 2013, respectively. During 2013, the Company purchased interests in additional strategic operating affiliates for $30 million.

On December 15, 2014, the Company announced it had entered into a Stock Purchase Agreement to sell its interests in ARX to The Progressive Corporation ("Progressive"). The transaction, which is expected to close in the second quarter of 2015, is subject to receipt of insurance regulatory approvals and satisfaction of other customary closing conditions. For further information see Note 25, "Subsequent Events".

Investment Manager Affiliates

During the years ended December 31, 2014 and 2013 the Company's investment manager affiliates included Polar Capital, an investment firm offering traditional and alternative products.

Other Investments

Contained within this asset class are equity interests in investment funds, limited partnerships and unrated tranches of collateralized debt obligations for which the Company does not have sufficient rights or ownership interests to follow the equity method of accounting. The Company accounts for such equity securities at estimated fair value with changes in fair value recorded through AOCI as it has no significant influence over these entities. Also included within other investments are structured transactions which are carried at amortized cost.

Other investments comprised the following at December 31, 2014 and 2013:

(US dollars in thousands)	2014	2013
Alternative Funds:		
Arbitrage	$ 49,844	$ 43,796
Directional	157,575	159,222
Multi-Style	68,706	72,624
Total alternative funds	276,125	275,642
Total other investments	$ 276,125	$ 275,642

Alternative and Private Equity Funds

As of December 31, 2014, the alternative fund portfolio employed 3 strategies and invested in 6 underlying funds. The Company is able to redeem the hedge funds on the same terms that the underlying funds can be redeemed. In general, the funds in which the Company is invested require at least 30 days notice of redemption, and may be redeemed on a monthly, quarterly, semi-annual, annual, or longer basis, depending on the fund.

Certain funds have a lock-up period and/or may also have the ability to impose a redemption gate. A lock-up period refers to the initial amount of time an investor is contractually required to remain invested before having the ability to redeem. Typically, the imposition of a gate delays a portion of the requested redemption, with the remaining portion settled in cash shortly after the redemption date.

The fair value of the Company's holdings in funds that may be subject to lockups and/or that have gate provisions in their governing documents as at December 31, 2014 and 2013 was $274.2 million and $272.1 million, respectively. The Company did not have any holdings in funds where a gate was imposed as at December 31, 2014 or 2013.

Certain funds may be allowed to invest a portion of their assets in illiquid securities, such as private equity or convertible debt. In such cases, a common mechanism used is a side-pocket, whereby the illiquid security is assigned to a separate memorandum capital account or designated account. Typically, the investor loses its redemption rights in the designated account. Only when the illiquid securities in the side-pocket are sold, or otherwise deemed liquid by the fund, may investors redeem that portion of their interest that has been 'side-pocketed'. As at December 31, 2014 and 2013, the fair value of our funds held in side-pockets were $18.3 million and $19.8 million, respectively. The underlying assets within these positions are generally expected to be liquidated over a period of approximately two to four years.

An increase in market volatility and an increase in volatility of hedge funds in general, as well as a decrease in market liquidity, could lead to a higher risk of a large decline in value of the hedge funds in any given time period.

The following represents an analysis of the net realized gains and the net unrealized gains on the Company's alternative investment funds and private equity funds:

	Net Unrealized Gains (Losses)		Net Realized Gains (Losses)	
(US dollars in thousands)	**2014**	**2013**	**2014**	**2013**
Alternative Investment Funds	$ 109,483	$ 99,912	$ 7,196	$ 3,541
Total	$ 109,483	$ **99,912**	$ 7,196	$ **3,541**

7. Losses and Loss Expenses

Unpaid losses and loss expenses for non-life business are comprised of:

(US dollars in thousands)	**2014**	**2013**
Reserve for reported losses and loss expenses	$ 1,575,892	$ 1,922,487
Reserve for losses incurred but not reported	1,368,599	1,486,937
Unpaid losses and loss expenses	2,944,491	3,409,424
Net losses and loss expenses incurred are comprised of:		
Loss and loss expense payments	781,313	685,974
Paid loss recoveries	(63,471)	(13,130)
Change in net unpaid losses and loss expenses	(208,748)	1,163
Net losses and loss expenses incurred	$ 509,094	$ 674,007

The movement in the net liability for losses and loss expenses is summarized as follows :

(US dollars in thousands)	2014	2013
Gross losses & loss expenses at beginning of period	$ 3,409,424	$ 3,404,522
Less reinsurance recoverables (1)	(178,541)	(210,419)
Net losses & expenses at beginning of period	3,230,883	3,194,103
Net loss & loss expenses incurred in respect of losses occurring in:		
Current year	600,742	777,643
Prior years	(91,648)	(103,636)
Total net losses & loss expenses incurred	509,094	674,007
Exchange rate effects and other	(189,755)	4,887
Paid losses & loss expenses in respect of losses occurring in:		
Current year	73,033	85,091
Prior years	644,809	557,023
Total net losses & loss expenses paid	717,842	642,114
Net unpaid losses & loss expenses at end of period	2,832,380	3,230,883
Plus reinsurance recoverables (1)	112,111	178,541
Gross unpaid losses & loss expenses at end of period	$ 2,944,491	**$ 3,409,424**

(1) Amounts exclude reinsurance recoverable relating to Life business, as this amount relates to future policy benefit reserves rather than loss and loss expense reserves.

Net losses incurred decreased by $165 million in 2014 as compared to 2013. This is due primarily to lower losses from natural catastrophes as compared to 2013. Also current year losses have fallen in sync with the reduction in net earned premium.

Net favorable prior year reserve development of $91.6 million for the year ended December 31, 2014 was mainly attributable to the following:

Net favorable prior year development of $72.5 million for the short-tailed lines in the year ended December 31, 2014 and details of the significant components are as follows:

- For property other lines, net prior year development was $39.4 million favorable across the Bermuda , Latin America and International operations and primarily due to better than expected development on attritional losses.
- For marine and aviation lines, net prior year development was $32.5 million favorable driven by better than expected attritional loss development in the International portfolio.
- For other lines, net prior year development was $17.1 million favorable mainly driven by better than expected development on attritional losses mainly in Bermuda.
- For property catastrophe lines, net prior year development during the year was $16.4 million unfavorable driven primarily by an increase on catastrophe losses in 2010 and 2013 being partially offset by reductions on other events and better than expected development on attritional losses in the Bermuda portfolio.

Net favorable prior year development of $19.1 million for the long-tailed lines for the year ended December 31, 2014 and details of the significant components are as follows:

- For professional lines, net prior year development was $11.9 million favorable mainly driven by better than expected development on attritional losses mainly in London.
- For casualty lines, net prior year development was $7.1 million favorable due to better than expected development on attritional losses mainly driven by $9.5 million from the Europe portfolios.

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

Loss reserve discounting:

Except for certain bodily injury liability claims, emanating from UK exposures, predominantly from the UK motor liability portfolio, the Company does not discount its unpaid losses and loss expenses.

The Company records 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 at 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, at 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 at December 31, 2014 and 2013, respectively. The decrease in net undiscounted unpaid losses and loss expenses between December 31, 2013 and December 31, 2014 is mainly due to foreign exchange rate movements.

Exchange rate effects on net loss reserves in each of the two years ended December 31, 2014 and 2013 related to our global operations primarily where reporting units have a functional currency that is not the US dollar. In 2014, the US dollar was stronger against the major currencies to which we are exposed, including the UK sterling and the Euro. In 2013, the US dollar was weaker against the major currencies to which we are exposed, including the UK sterling and the Euro. These movements in the US dollar gave rise to translation and revaluation exchange movements related to carried loss reserve balances of $190 million and $4.9 million in the years ended December 31, 2014 and 2013, respectively.

8. Reinsurance

Reinsurance premiums ceded are in respect of the purchase of reinsurance protection on certain aspects of the Company's book of business together with underlying common account protection on certain proportional and intercompany quota share reinsurance treaties.

The Company utilizes reinsurance and retrocession agreements principally to increase aggregate capacity and to reduce the risk of loss on business assumed. The Company's reinsurance and retrocession agreements provide for recovery of a portion of losses and loss expenses from reinsurers and reinsurance recoverables are recorded as assets. The Company is liable if the reinsurers are unable to satisfy their obligations under the agreements. Under its reinsurance security policy, the Company seeks to cede business to reinsurers generally with a financial strength rating of "A" or better. The Company considers reinsurers that are not rated or do not fall within the above rating categories and may grant exceptions to the Company's general policy on a case-by-case basis.

The effect of reinsurance and retrocessional activity on premiums written and earned from general operations is shown below:

	Premiums Written		Premiums Earned	
(US dollars in thousands)	**2014**	**2013**	**2014**	**2013**
Assumed	$ 1,341,335	$ 1,368,685	$ 1,348,220	$ 1,370,763
Ceded	(106,361)	(108,297)	(98,697)	(114,381)
Net	**$ 1,234,974**	**$ 1,260,388**	**$ 1,249,523**	**$ 1,256,382**

As at December 31, 2014, the total reinsurance assets of $4.6 billion (2013: $2.3 billion) included reinsurance receivables for paid losses and loss expenses of $22.3 million (2013: $21.6 million) and $4.5 billion (2013: $2.3 billion) with respect to the ceded reserve for losses and loss expenses and future policy benefit reserves, including ceded losses incurred but not reported. During 2014, due to the right of offset the $4.5 billion of future policy benefit reserves recoverable from GCLR is included within funds withheld and life retrocession arrangements, reducing the amount from $5.4 billion to approximately $0.9 billion. Although the contractual obligation of individual reinsurers to pay their reinsurance obligations is based on specific contract provisions, the collectability of such amounts requires significant estimation by management. The majority of the balance the Company has accrued as recoverable will not be due for collection until sometime in the future. Over this period of time, economic conditions and operational performance of a particular reinsurer may impact their ability to meet these obligations and while they may continue to acknowledge their contractual obligation to do so, they may not have the financial resources or willingness to fully meet their obligation to the Company.

As at December 31, 2014 and 2013, the provision for uncollectible reinsurance relating to both reinsurance balances receivable and unpaid losses and loss expenses recoverable was $1.1 million and $1.5 million, respectively. To estimate the provision for uncollectible reinsurance recoverable, the reinsurance recoverable must first be allocated to applicable reinsurers. As part of this process, ceded IBNR is allocated by reinsurer. The allocations are generally based on historical relationships between gross and ceded losses. If actual experience varies materially from historical experience, the allocation of reinsurance recoverable by reinsurer will change.

The Company uses a default analysis to estimate uncollectible reinsurance. The primary components of the default analysis are reinsurance recoverable balances by reinsurer, net of collateral, 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 the Company with the same legal entity for which the Company believes there is a right of offset. The Company is the beneficiary of letters of credit, trust accounts and funds withheld in the aggregate amount of $279.8 million as at December 31, 2014 (2013: $115.0 million), collateralizing reinsurance recoverables with respect to certain reinsurers. 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.

Effective July 1, 2002, the Company entered into a reinsurance agreement with an affiliated company to cede 80% of a specific UK sterling denominated life contract. Since then and before the Company ceased writing new business, the Company entered into additional reinsurance agreements with the same affiliate to cede a further number of specific UK sterling denominated life contracts. The ceded proportions ranged between 80% and 90%. During the fourth quarter of 2009, twenty-three of these reinsurance agreements were terminated following the novation/recapture of the underlying life contracts. During the first quarter of 2010, a further reinsurance agreement was terminated following the recapture of the underlying life contract.

During 2014 these internal reinsurance agreements were commuted and replaced with a 100% ceded retrocession with GCLR. See Note 3, "Retrocession of Life Reinsurance business" for further information.

As at December 31, 2014, premiums ceded and outstanding losses recoverable from the above contracts were $20.3 million and nil, respectively. Loss recoveries included in net losses incurred were $438.2 million and a reduction to acquisition costs of $3.0 million. As at December 31, 2013, premiums ceded and outstanding losses recoverable from the above contracts were $75.3 million and $2.1 billion, respectively. Loss recoveries included in net losses incurred were $139.7 million and acquisition costs were $1.9 million.

9. Deposit Liabilities

The Company has entered into certain reinsurance policies that transfer insufficient risk under GAAP to be accounted for as reinsurance transactions and are recognized as deposits. These structured property and casualty agreements have been recorded as deposit liabilities and are initially matched by an equivalent amount of investments. The Company has investment risk related to its ability to generate sufficient investment income to enable the total invested assets to cover the payment of the ultimate liability. See Note 4, "Investments," for further information relating to the Company's net investment income as well as realized and unrealized investment (losses) gains. Each deposit liability accrues at a rate equal to the internal rate of return of the payment receipts and obligations due during the life of the agreement. Where the timing and/or amount of future payments are uncertain, cash flows reflecting the Company's actuarially determined best estimates are utilized. Deposit liabilities are initially recorded at an amount equal to the assets received.

As at December 31, 2014 and 2013, total deposit liabilities were $671 million and $709 million, respectively. Interest expense of $24.3 million and $28.6 million was recorded related to the accretion of deposit liabilities for the years ended December 31, 2014 and 2013, respectively.

10. Future Policy Benefit Reserves

The Company enters into long duration contracts that subject the Company to mortality and morbidity risks and which were accounted for as life premiums earned. Future policy benefit reserves were established using appropriate assumptions for investment yields, mortality, and expenses, including a provision for adverse deviation. The average interest rate used for the determination of the future policy benefits for these contracts was 3.26% and 4.49% at December 31, 2014 and 2013, respectively. Total future policy benefit reserves for the year ended December 31, 2014 and 2013 were $4.6 billion and $4.4 billion, respectively.

Future policy benefit reserves are comprised of the following:

(US dollars in thousands)	2014	2013
Traditional Life	$ 336,881	$ 519,650
Annuities	4,296,290	3,884,209
Net	**$ 4,633,171**	**$ 4,403,859**

As described in Note 3, during 2014 the internal life reinsurance agreements written with an affiliate of the Company, were commuted. Post this commutation, on May 30, 2014 the Company ceded the majority of its life reinsurance business to an external party GCLR via 100% quota share reinsurance (the "Life Retro Arrangements"). As a result of entering into the retrocession transaction with GCLR a premium deficiency was recognized. The premium deficiency calculation consists of deferred aquisition cost, future policy benefit reserves and the cost of reinsurance, The premium deficiency resulted in a $969 million charge to net income and a subsequent reduction in deferred acquisition costs and an increase in the liability for future policy benefit reserves.

Under the terms of the transaction noted above, the Company has reinsured $4.5 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.

11. Funds Withheld on Life Retrocession Arrangements

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 contractual 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.

Funds withheld on life retrocession arrangements (net of future policy benefit reserves recoverable) for the year ended December 31, 2014, are comprised of:

(US dollars in thousands)	2014
Assets held on a funds withheld basis relating to the Life Retro Arrangements	$ 5,420,693
Reinsurance recoverable from GCLR	(4,485,132)
Funds withheld on life retrocession arrangements (net of future policy benefit reserves)	**$ 935,561**

12. Financing Arrangements

As at December 31, 2014, the Company, in conjunction with XL Group plc, had bank and Letter of Credit facilities available from a variety of sources including commercial banks, totaling $3.6 billion (2013: $3.6 billion). This excludes $1 billion that is also included in the revolving credit facility below.

The financing structure as at December 31, 2014 was as follows:

(US dollars in thousands) **Facility**	**Committment**	**In Use/Outstanding by the Company**
Debt:		
5 year revolver expiring 2018	$ 1,000,000	$ -
Letters of Credit:		
8 facilities – total	$ 3,575,000	$ 1,045,271

A number of these Letters of Credit facilities are shared amongst other companies within the XL Group plc. As at December 31, 2014, XL Group plc usage of the above facilities was $1.8 billion (2013: $1.9 billion).

The financing structure as at December 31, 2013 was as follows:

(US dollars in thousands) **Facility**	**Committment**	**In Use/Outstanding by the Company**
Debt:		
4 year revolver expiring 2018	$ 1,000,000	$ -
Letters of Credit:		
7 facilities – total	$ 3,575,000	$ 1,035,455

As at December 31, 2014 and 2013, $1 billion and $1 billion, respectively, of letters of credit were outstanding, 70.7% (2013: 69.7%) is secured against investments pledged specifically to four Letters of Credit facilities. These facilities are utilized to support non-admitted insurance and reinsurance operations related to US business and capital requirements at Lloyd's.

In November 2013 the Company and certain of its affiliates (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 issuance of letters of credit up to $1 billion and (ii) an unsecured credit agreement, which provides for issuance of letters of credit and revolving credit loans up to $1 billion. The Company's Ultimate parent has 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 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, the Company and certain of its affiliates could be required to provide alternative security to cedants. This could take the form of insurance trusts supported by the investment portfolio or funds withheld (amounts retained by ceding companies to collateralize loss or premium reserves) using the Company's or certain of its affiliates 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 the Company and certain of its affiliates and the loss experience of such business.

On May 7, 2013, an affiliate company 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, this affiliate company entered into a credit agreement first amendment and credit agreement second amendment, respectively, to such credit agreement (as amended, the "May 2013 Credit Agreement").

On August 6, 2013, an affiliate company 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, this affiliate company entered into a credit agreement first amendment to such credit agreement (as amended, the "August 2013 Credit Agreement").

Additionally, on November 4, 2013, an affiliate company 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. The affiliate company 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.

Cross Default and Other Provisions in Debt Documents

In addition to letters of credit, the Company has established insurance trusts in the United States that provide cedants with statutory relief required under state insurance regulation in the United States. It is anticipated that the commercial facilities may be renewed on expiry but such renewals are subject to the availability of credit from banks utilized by the Company and may be renewed with materially different terms and conditions. In the event that such credit support is insufficient, the Company could be required to provide alternative security to cedants. This could take the form of additional insurance trusts supported by the Company's investment portfolio or funds withheld using the Company's cash resources. The value 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 the Company and the loss experience of such business.

In general, all of the Company's bank facilities, indentures and other documents relating to the Company's outstanding indebtedness (collectively, the "Company's Debt Documents"), as described above, contain cross acceleration or cross default provisions to each other and the Company's Debt Documents contain affirmative covenants. These covenants provide for, among other things, minimum required ratings of the Company's insurance and reinsurance operating subsidiaries and a maximum level of secured indebtedness that may be incurred in the future. In addition, generally each of the Company's Debt Documents provide for an event of default in the event of a change of control of the Company or some events involving bankruptcy, insolvency or reorganization of the Company. The Company's credit facilities also contain minimum consolidated net worth covenants.

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 Company's Debt Documents contain cross acceleration or cross default provisions, a default by one of these subsidiaries may result in all holders declaring their debt due and payable and accelerating all debt due under those documents. If this were to occur, the Company may not have funds sufficient at that time to repay any or all of such indebtedness.

13. Variable Interest Entities

At times, the Company has utilized variable interest entities ("VIEs") both indirectly and directly in the ordinary course of the Company's business.

The Company invests in CDOs and other investment vehicles that are issued through VIEs as part of the Company's investment portfolio. The activities of these VIEs are generally limited to holding the underlying collateral used to service investments therein. The Company's involvement in these entities is passive in nature. The Company has not been involved in establishing these entities and is not the primary beneficiary of these VIEs as contemplated in current authoritative accounting guidance.

During the third quarter of 2013, the Company, along with other investors, formed a new Bermuda-based company, New Ocean Capital Management Limited ("New Ocean"), to act as an investment manager that will focus on providing third-party investors access to insurance-linked securities ("ILS") and other insurance and reinsurance capital markets products. The Company holds a majority voting interest in New Ocean through its ownership of common shares and, accordingly, the financial statements of New Ocean have been included in the consolidated financial statements of the Company. None of the assets, liabilities, revenues or net income of New Ocean was material to the Company during the current year. The equity interest attributable to third party investors in New Ocean recorded in the Company's Consolidated Balance Sheet as "Non-controlling interest in equity of consolidated subsidiaries" was $0.2 million at December 31, 2014 (2013: $0.3 million).

During the fourth quarter of 2013, the Company, along with other investors, formed a new Bermuda-based investment company, New Ocean Focus Cat Fund Ltd. ("New Ocean FCFL"), which is considered a VIE under GAAP. During the year ended December 31, 2014, New Ocean FCFL invested in a special purpose reinsurer, Vector Reinsurance Ltd ("Vector Re"), formed for the purpose of underwriting collateralized excess of loss reinsurance with a focus on global property catastrophe risks. Most of Vector Re's current underwriting activity relates to reinsurance business assumed from XL subsidiaries. Underwriting administration and claims services are provided to Vector Re by XL under service fee contracts which management believes were negotiated at arm's-length, while investment advisory services are provided by New Ocean.

The Company currently holds majority equity interests, which are considered to be the controlling financial interests, in New Ocean FCFL and Vector Re. Accordingly, included in the consolidated financial statements of the Company are New Ocean FCFL's and Vector Re's total net assets of $93.9 million and $46.5 million at December 31, 2014 and December 31, 2013, respectively. The Company's share of revenue and net income in these VIEs was not material to the Company for the twelve months ended December 31, 2014. All inter-company transactions between XL entities have been eliminated in consolidation. The equity interest attributable to third party investors in New Ocean FCFL and Vector Re recorded in the Company's Consolidated Balance Sheets as "Non-controlling interest in equity of consolidated subsidiaries" was $57.5 million and $6.9 million at December 31, 2014 and December 31, 2013, respectively.

During the second quarter of 2014, the Company formed another new Bermuda-based investment company, New Ocean Market Value Cat Fund, Ltd. ("New Ocean MVCFL"), which is also considered a VIE under GAAP. New Ocean MVCFL invests in insurance-linked securities, with a current primary focus on catastrophe bonds. An additional investor joined New Ocean MVCFL in the fourth quarter of 2014, but the Company still holds a majority equity interest which is considered to be the controlling financial interest. Accordingly, included in the consolidated financial statements of the Company are New Ocean MVCFL's total net assets of $46.1 million at December 31, 2014. The Company's share of revenue and net income in New Ocean MVCFL was not material for the twelve months ended December 31, 2014. The equity interest attributable to the third party investor in New Ocean MVCFL recorded in the Company's Consolidated Balance Sheets as "Non-controlling interest in equity of consolidated subsidiaries" was $1.0 million at December 31, 2014.

14. Share Capital

The authorized share capital of the Company is $100 million comprised of 10 million common shares with a par value of $10 each.

As at December 31, 2014, 10 million common shares were issued and outstanding, all of which were owned by Mid Ocean Holdings Ltd. XL Group plc is the ultimate parent company.

15. Related Party Transactions

The following amounts included in the consolidated income statements and balance sheets relate to reinsurance arrangements with XL Group plc affiliated companies:

(US dollars in thousands)	**2014**	**2013**
Assets and liabilities:		
Premiums receivable	$ 2,284	$ 2,819
Deferred acquisition costs	1,197	791
Unpaid loss and loss expenses and future policy benefit reserve recoverable	7,351	2,069,399
Unpaid losses and loss expenses	(62,217)	(68,974)
Unearned premiums	(12,851)	(11,597)
Reinsurances balances payable	(14,702)	(23,078)
Unearned ceding commission	(3,065)	(107,525)
Net income:		
Gross premiums written	11,704	3,588
Net premiums written	(21,615)	(62,761)
Net premiums earned	(18,651)	(63,764)

(US dollars in thousands)	2014	2013
Net losses & loss expenses incurred	561,732	199,958
Acquisition expenses	2,780	7,775
Net underwriting result	**$ 545,861**	**$ 143,969**

In 2014, the majority of the internal transactions relate to XLIB and XL Reinsurance America Inc. 2013 relate to internal reinsurance agreements with a life business affiliate, as detailed in Note 8 "Reinsurance". These retrocessions were commuted during 2014, explaining the signficiant decrease in the above.

In the normal course of business, the Company enters into reinsurance contracts with certain of its other strategic affiliates, or their subsidiaries. During the years ended December 31, 2014 and 2013, these contracts resulted in reported net premiums written, net reported claims and reported acquisition costs as summarized below. Management believes that these transactions are conducted at market rates consistent with negotiated arms-length contracts.

(US dollars in thousands)	2014	2013
Reported net premiums written	$ 91,063	$ 72,580
Net losses incurred	38,591	29,042
Reported acquisition costs	35,691	25,218

For 2014, the Company realized investment gains of $3.2 million (2013: $3.2 million) as a result of intercompany transfers.

16. Derivative Instruments

The Company enters into derivative instruments for both risk management and investment purposes. The Company is exposed to potential loss from various market risks, and manages its market risks based on guidelines established by management and the Risk and Finance Committee of the XL Group plc.'s Board of Directors. The Company recognizes all derivatives as either assets or liabilities in the balance sheet and measures those instruments at fair value with the changes in fair value of derivatives shown in the consolidated statement of income as "net realized and unrealized gains and losses on derivative instruments" unless the derivatives are designated as hedging instruments. The accounting for derivatives that are designated as hedging instruments is described in Note 2(F), "Significant Accounting Policies – Derivative Instruments." The following table summarizes information on the location and gross amounts of derivative fair values contained in the consolidated balance sheet as at December 31, 2014 and 2013:

December 31, 2014	**Asset Derivatives**			**Liability Derivatives**		
(US dollars in thousands)	**Balance Sheet Location**	**Notional Amount**	**Fair Value**	**Balance Sheet Location**	**Notional Amount**	**Fair Value**
Derivatives not designated as hedging instruments:						
Investment Related Derivatives:						
Interest rate exposure	Other assets	$ 394,597	$ 206	Other liabilities	$ 20,782	$ 51
Foreign exchange exposure	Other assets	11,509	403	Other liabilities	226,024	4,602
Credit exposure	Other assets	2,408	165	Other liabilities	932	13
Financial market exposure	Other assets	46,145	351	Other liabilities	33,670	34
Commodity futures	Other assets	-	-	Other liabilities	-	-
Other Non-Investment Derivatives:						
Credit exposure	Other assets	31,060	60	Other liabilities	-	-
Guanteed minimum income benefit contract	Other assets	46,249	13,603	Other liabilities	46,249	13,603
Modified coinsurance funds withheld contract	Other assets	64,947	-	Other liabilities	5,401,278	-
Total derivatives not designated as hedging instruments		**$ 596,915**	**$ 14,788**		**$ 5 ,728,935**	**$ 18,303**

December 31, 2013	Asset Derivatives					Liability Derivatives				
(US dollars in thousands)	Balance Sheet Location		Notional Amount		Fair Value	Balance Sheet Location		Notional Amount		Fair Value
Derivatives designated as hedging instruments:										
Foreign exchange contracts	Other assets	$	4,124	$	91	Other liabilities	$	-	$	-
Total derivatives designated as hedging instruments		$	4,124	$	91		$	-	$	-
Derivatives not designated as hedging instruments:										
Investment Related Derivatives:										
Interest rate exposure	Other assets	$	30,702	$	266	Other liabilities	$	10,259	$	8
Foreign exchange exposure	Other assets		17,497		12	Other liabilities		50,614		680
Credit exposure	Other assets		-		-	Other liabilities		932		5
Financial market exposure	Other assets		58,232		1,111	Other liabilities		14,821		77
Total derivatives not designated as hedging instruments		**$**	**106,431**	**$**	**1,389**		**$**	**76,626**	**$**	**770**

Derivative Instruments Designated as Hedging Instruments

The Company designates certain of its derivative instruments as fair value hedges or cash flow hedges and formally and contemporaneously documents all relationships between the hedging instruments and hedged items and links the hedging derivative to specific assets and liabilities. The Company assesses the effectiveness of the hedge both at inception and on an on-going basis, and determines whether the hedge is highly effective in offsetting changes in fair value or cash flows of the linked hedged item.

The following table provides the total impact on earnings relating to derivative instruments formally designated as fair value hedges along with the impacts of the related hedged items for the years ended December 31, 2014 and 2013:

December 31, 2014		Hedged Items - Amount of Gain/(Loss) Recognized in Income Attributable to Risk								
(US dollars in thousands)		Gain/(Loss) Recognized in Income on Derivative		Deposit Liabilities		Fixed Maturity Investments		Notes Payable and Debt		Ineffective Portion of Hedging Relationship Gain/(Loss)
Foreign exchange exposure	$	(4,129)	$	-	$	4,131	$	-	$	2
Total	$	(4,129)	**$**	**-**	$	4,131	**$**	**-**	**$**	**2**

December 31, 2013		Hedged Items - Amount of Gain/(Loss) Recognized in Income Attributable to Risk								
(US dollars in thousands)		Gain/(Loss) Recognized in Income on Derivative		Deposit Liabilities		Fixed Maturity Investments		Notes Payable and Debt		Ineffective Portion of Hedging Relationship Gain/(Loss)
Foreign exchange exposure	$	(65)	$	-	$	55	$	-	$	(10)
Total	**$**	**(65)**	**$**	**-**	**$**	**55**	**$**	**-**	**$**	**(10)**

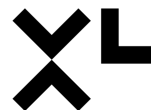
The gains (losses) recorded on both the derivatives instruments and specific items designated as being hedged as part of the fair value hedging relationships outlined above are recorded through "Net realized and unrealized gains (losses) on derivative instruments" in the income statement along with any associated ineffectiveness in the relationships.

Derivative Instruments Not Formally Designated as Hedging Instruments

The following table provides the total impact on earnings relating to derivative instruments not formally designated as hedging instruments under authoritative accounting guidance and from the ineffective portion of fair value hedges. The impacts are all recorded through "Net realized and unrealized gains (losses) on derivative instruments" in the income statement for the years ended December 31, 2014 and 2013:

December 31, 2014 *(US dollars in thousands)*		**Amount of Gain (Loss) Recognized in Income on Derivative**
Derivatives not designated as hedging instruments:		
Investment Related Derivatives:		
Interest rate exposure	$	1,937
Foreign exchange exposure		(2,061)
Credit exposure		804
Financial market exposure		228
Other Non-Investment Derivatives:		
Modified coinsurance funds withheld contract		(73,574)
Total derivatives not designated as hedging instruments		(72,666)
Amount of gain (loss) recognized in income from ineffective portion of fair value hedges		2
Net realized and unrealized gains on derivative instruments	$	(72,664)
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments – Life Funds Withheld Assets	**$**	**(488,222)**

December 31, 2013 *(US dollars in thousands)*		**Amount of Gain (Loss) Recognized in Income on Derivative**
Derivatives not designated as hedging instruments:		
Investment Related Derivatives:		
Interest rate exposure	$	(2,418)
Foreign exchange exposure		(1,029)
Credit exposure		-
Financial market exposure		4,926
Other Non-Investment Derivatives:		
Modified coinsurance funds withheld contract		91,961
Total derivatives not designated as hedging instruments		93,440
Amount of (loss) recognized in income from ineffective portion of fair value hedges		(66)
Net realized and unrealized gains on derivative instruments	**$**	**93,374**



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

Investment Related Derivatives

The Company, either directly or through its investment managers, may use derivative instruments within its investment portfolio, including interest rate swaps, inflation swaps, credit derivatives (single name and index credit default swaps), options, forward contracts and financial futures (foreign exchange, bond and stock index futures), primarily as a means of economically hedging exposures to interest rate, credit spread, equity price changes and foreign currency risk or, in limited instances, for investment purposes. The Company is exposed to credit risk in the event of non-performance by the counterparties under any swap contracts, although the Company generally seeks to use credit support arrangements with counterparties to help manage this risk.

Investment Related Derivatives – Interest Rate Exposure

The Company utilizes risk management and overlay strategies that incorporate the use of derivative financial instruments, primarily to manage its fixed income portfolio duration and exposure to interest rate risks associated with primarily those assets and liabilities related to certain legacy other financial lines and structured indemnity transactions. The Company uses interest rate swaps to convert certain liabilities from a fixed rate to a variable rate of interest and may also use them to convert a variable rate of interest from one basis to another.

Investment Related Derivatives - Foreign Exchange Exposure

The Company has exposure to foreign currency exchange rate fluctuations through its operations and in its investment portfolio. The Company uses foreign exchange contracts to manage its exposure to the effects of fluctuating foreign currencies on the value of certain of its foreign currency fixed maturities primarily within its Life operations portfolio. These contracts are not designated as specific hedges for financial reporting purposes and, therefore, realized and unrealized gains and losses on these contracts are recorded in income in the period in which they occur. These contracts generally have maturities of twelve months or less.

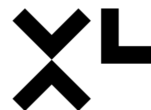
In addition, certain of the Company's investment managers may, subject to investment guidelines, enter into forward contracts where potential gains may exist.

Investment Related Derivatives – Credit Exposure

Credit derivatives may be purchased within the Company's investment portfolio in the form of single name and basket credit default swaps, which are used to mitigate credit exposure through a reduction in credit spread duration (ie, macro credit strategies rather than single-name credit hedging) or exposure to selected issuers, including issuers that are not held in the underlying bond portfolio.

Other Non-Investment Derivatives

The Company also has derivatives embedded in certain reinsurance contracts. For a certain life reinsurance contract, the Company pays the ceding company a fixed amount equal to the estimated present value of the excess of guaranteed benefit over the account balance upon the policyholder's election to take the income benefit. The fair value of this derivative is determined based on the present value of expected cash flows. In addition, the Company has modified coinsurance and funds withheld reinsurance agreements that provide for a return based on a portfolio of fixed income securities. As such, the agreements contain embedded derivatives. The embedded derivative is bifurcated from the funds withheld balance and recorded at fair value with changes in fair value recognized in earnings through Net realized and unrealized gains and losses on derivative instruments.



17. Commitments and Contingencies

A. Concentrations of Credit Risk

The creditworthiness of any counterparty is evaluated by the Company, taking into account credit ratings assigned by rating agencies. The credit approval process involves an assessment of factors including, among others, the counterparty and country and industry credit exposure limits. Collateral may be required, at the discretion of the Company, on certain transactions based on the creditworthiness of the counterparty.

The areas where significant concentrations of credit risk may exist include unpaid losses and loss expenses recoverable and reinsurance balances receivable (collectively, “reinsurance assets”) and investments balances.

The Company’s reinsurance assets as at December 31, 2014 and 2013 amounted to $4.6 billion and $2.3 billion respectively, and resulted from reinsurance arrangements in the course of its operations. A credit exposure exists with respect to reinsurance assets as they may be uncollectible. The Company manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound, and if necessary, the Company may hold collateral in the form of funds, trust accounts and/or irrevocable letters of credit. This collateral can be drawn on for amounts that remain unpaid beyond specified time periods on an individual reinsurer basis.

The Company did not have an aggregate direct investment in any single corporate issuer in excess of 5% of shareholders’ equity at December 31, 2014 or December 31, 2013. Corporate issuers represent only direct exposure to fixed maturities and short-term investments of the parent issuer and its subsidiaries. These exposures exclude asset and mortgage back securities that were issued, sponsored or serviced by the parent and government-guaranteed issues, but does include covered bonds.

In addition, the Company underwrites a significant amount of its reinsurance property and casualty business through brokers and a credit risk exists should any of these brokers be unable to fulfill their contractual obligations with respect to the payments of reinsurance balances to the Company.

During 2014 and 2013, approximately 28% and 28%, respectively, of the Company’s gross written premiums from general operations were generated from or placed by the Marsh & McLennan companies. During the same period, approximately 25% and 30%, of the Company’s gross written premiums from general operations were generated from or placed by Aon Corporation and its subsidiaries. In addition, 18% and 15% respectively, of the Company’s gross written premiums from general operations were generated from and placed by the Willis Group and its subsidiaries. During the same period, approximately 10% and 3%, of the Company’s gross written premiums from general operations were generated from or placed by JLT and its subsidiaries. These brokers are large and well established and there are no indications that they are financially troubled. During 2014 and 2013, no other broker and no one insured or reinsured accounted for more than 1.5% and 4%, respectively, of the Company’s gross premiums written from general operations.

Some of the Company’s reinsurance contracts assumed have special termination clauses which allows the reinsured to terminate the contract under specific circumstances including (i) if the Company ceases writing new business, (ii) the Company becomes insolvent or has been placed in liquidation (whether voluntary or involuntary), (iii) the Company’s shareholder’s equity has reduced by more than a specified percentage, (iv) a change in control of the Company, or (v) the Company’s rating has been downgraded below a specified ratings level by A.M. Best or Standard & Poor’s.

B. Investment in Affiliates

The Company owns a minority interest in certain closed-end funds, certain limited partnerships and similar investment vehicles, including funds managed by those companies. The Company has commitments, which include potential additional add-on clauses, to invest a further $6.7 million (2013: $6.7 million) over the next five years.

C. Exposures under Guarantees

The Company, along with XLIT Ltd., participates in a guarantee on payments due to a utilities company under a reinsurance contract issued by an XLIT Ltd. subsidiary. The notional exposure and deposit liabilities under this contract at December 31, 2014 were approximately $864 million (2013: $897 million) and $339 million (2013: $349 million), respectively.

The Company, along with XLIT Ltd. and two other affiliates, jointly and severally guarantee two corporate credit facilities amounting to $2.0 billion (2013: $2.0 billion) as of December 31, 2014.

During 2012 the Company signed a Capital Maintenance Agreement between itself and XL Re Europe SE, an affiliate, whereby the Company shall provide capital support to XL Re Europe SE should its regulatory capital fall below the requirements of the Central Bank of Ireland, up to an amount not to exceed $500 million.

The current carrying value of the above liabilities is zero as the likelihood to make payments under each instrument is deemed remote.

D. Letters of Credit

As at December 31, 2014 and 2013, $1 billion and $1 billion of letters of credit were outstanding, 70.7%, (2013: 69.7%) is secured against investments pledged specifically to four Letters of Credit facilities. These facilities are utilized to support non-admitted insurance and reinsurance operations related to US business and capital requirements at Lloyd's. See Note 12, "Financing Arrangements", for further information.

18. Amounts Due to and from Parent and Affiliates

Amounts due from parent and affiliates are in respect of payable and receivable amounts due to and from companies within the XL Group. The balances arise as a result of the Company's operating and investing activities. There are no fixed repayment terms and all amounts are due on demand and are non-interest bearing. The net intercompany payable as at December 31, 2014 was $26 million (2013: $9 million net receivable).

19. Pension Plan

XL Group plc provides pension benefits to eligible employees through defined contribution retirement plans. Plan assets are invested principally in equity securities and fixed maturities.

The Company has qualified defined contribution plans which are managed externally and whereby employees and the Company contribute a certain percentage of the employee's gross salary into the plan each month. The Company's contribution generally vests over five years. The Company's expenses for its qualified contributory defined contribution retirement plans were $2.8 million and $2.2 million as at December 31, 2014 and 2013, respectively.

20. Dividends

In 2014, the Company paid $600 million in dividends (2013: $390 million) to its ultimate parent.

21. Taxation

The Company is not subject to any income, withholding or capital gains taxes under current Bermuda law. In the event that there is a change such that these taxes are imposed, the Company would be exempted from any such tax until March 2035 pursuant to the Bermuda Exempted Undertakings Tax Protection Act 1966, and the Exempted Undertakings Tax Protection Amendment Act 2011.

The Company has operations in subsidiary and branch form in various other jurisdictions around the world, including but not limited to, Ireland, the UK, France, Switzerland, Australia, Singapore and Brazil that are subject to relevant taxes in those jurisdictions.

The income tax provisions for the years ended December 31, 2014 and 2013 are as follows:

(US dollars in thousands)	**2014**	**2013**
Current expense:		
US	$ -	$ -
Non US	60,893	49,693
Total current expense	60,893	49,693
Deferred (benefit):		
US	-	-
Non US	(56,207)	(23,666)
Total deferred (benefit)	(56,207)	(23,666)
Total tax expense	**$ 4,686**	**$ 26,027**

The weighted average expected tax provision has been calculated using the pre-tax accounting income (loss) in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. Reconciliation of the difference between the provision for income taxes and the expected tax provision at the weighted average tax rate for the years December 31, 2014 and 2013 is provided below:

(US dollars in thousands)	2014	2013
Expected tax provision at weighted average rate	$ (65,135)	$ 8,438
Permanent differences:		
Allocated investment income	4,238	(4,525)
Nontaxable income	-	(200)
Prior year adjustments	2,343	15,382
Foreign taxes	18,686	(6,099)
Valuation allowance	(456)	161
Non-deductible expenses	950	265
Adjustments related to Life Retrocession	52,412	16,000
Uncertain tax positions	(8,700)	-
Other	348	(3,395)
Total tax expense	**$ 4,686**	**$ 26,027**

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2014 and 2013 were as follows:

(US dollars in thousands)	2014	2013
Deferred tax asset:		
Net operating losses	$ 3,080	$ 11,550
Net unrealized depreciation on investments	877	438
Other	1,031	774
Deferred tax asset, gross of valuation allowance	4,988	12,762
Valuation allowance	(1,172)	(3,460)
Deferred tax asset, net of valuation allowance	3,816	9,302
Deferred tax liability:		
Net unrealized appreciation on investments	12,545	5,472
Deferred acquisition costs	1,268	7,470
Regulatory reserves	47,437	110,989
Other	1,486	1,516
Deferred tax liability	62,736	125,447
Net deferred tax liability	**$ (58,920)**	**$ (116,145)**

The deferred tax asset and liability balances presented above represent the gross deferred tax asset and liability balances across each tax jurisdiction. The deferred tax asset balances of nil and $3.4 million at December 31, 2014 and 2013, respectively, and deferred tax liability balances of $58.9 million and $119.6 million at December 31, 2014 and 2013, respectively, disclosed on the consolidated balance sheets include netting of certain deferred tax assets and liabilities within a tax jurisdiction to the extent such netting is consistent with the regulations of the tax authorities in those jurisdictions.

22. Accumulated Other Comprehensive Income

The changes in AOCI, net of tax, by component for the year ended December 31, 2014 are as follows:

December 31, 2014 *(US dollars in thousands)*	**Before Tax amount**	**Tax expense (benefit)**	**Net of tax amount**
Net unrealized gains on investment portfolio, net of tax	$ 410,648	$ (2,903)	$ 413,551
Net unrealized gains on affiliate and other investments, net of tax	12,496	-	12,496
OTTI losses recognized in other comprehensive income, net of tax	1,718	57	1,661
Foreign currency translation adjustments net of tax	(2,573)	3,790	(6,363)
Other comprehensive income	$ 422,289	$ 944	$ 421,345

The following are the related tax effects allocated to each component of other comprehensive income (loss)

December 31, 2014 *(US dollars in thousands)*	**Before Tax amount**	**Tax expense (benefit)**	**Net of tax amount**
Net unrealized gains on investment portfolio, net of tax	$ 609,093	$ 8,056	$ 601,037
Net unrealized gains on affiliate and other investments, net of tax	110,715	-	110,715
OTTI losses recognized in other comprehensive income, net of tax	119,317	1,806	117,511
Foreign currency translation adjustments net of tax	(107,319)	(38,977)	(68,342)
Other comprehensive income	$ 731,806	$ (29,115)	$ 760,921

December 31, 2013 *(US dollars in thousands)*	**Before Tax amount**	**Tax expense (benefit)**	**Net of tax amount**
Net unrealized gains on investment portfolio, net of tax	$ 198,445	$ 10,959	$ 187,486
Net unrealized gains on affiliate and other investments, net of tax	98,219	-	98,219
OTTI losses recognized in other comprehensive income, net of tax	117,599	1,749	115,850
Foreign currency translation adjustments net of tax	(104,746)	(42,767)	(61,979)
Other comprehensive income	$ 309,517	$ (30,059)	$ 339,576

(1) Included in these amounts is the Shadow Adjustments. During the year ended December 31, 2013, the initial impact of $44.7 million was recorded. During the year ended December 31, 2014, additional net impacts of $400.5 million were recorded, resulting in a total cumulative net impact of Shadow Adjustments on future policy benefit reserves of $445.1 million at December 31, 2014.

23. Statutory Financial Data

The Company's ability to pay dividends or return capital from shareholders' equity is limited by applicable laws and regulations of the various jurisdictions in which the Company's principal operating subsidiaries operate, certain additional required regulatory approvals and financial covenants contained in the Company's letters of credit and revolving credit facilities. The payment of dividends by the Company's principal operating subsidiaries is regulated under the laws of various jurisdictions including Bermuda, the UK, Ireland and Switzerland in which the principal operating subsidiaries are licensed to transact business and the other jurisdictions where the Company has regulated subsidiaries. Statutory capital and surplus for the principal operating subsidiaries of the Company for the years ended December 31, 2014 and 2013 are summarized below. 2014 information is preliminary as many regulatory returns are due later in 2014 for many jurisdictions in which the Company does business, and accordingly, 2014 information summarized below is subject to revision.

	Bermuda		UK, Europe, and Other	
(US dollars in thousands)	**2014**	**2013**	**2014**	**2013**
Required statutory capital and surplus	$ 1,203,582	$ 1,268,103	$ 581,421	$ 649,474
Actual statutory capital and surplus	$ 3,386,469	$ 3,880,908	$ 1,192,937	$ 1,108,909

Statutory net income (loss) for the principal operating subsidiaries of the Company for the years ended December 31, 2014, and 2013 is summarized below:

(US dollars in thousands)	**2014**	**2013**
Bermuda	$ (272,003)	$ 625,572
UK, Europe, and Other	$ 126,826	$ (15,799)

The difference between statutory financial statements and statements prepared in accordance with GAAP varies by jurisdiction, however, the primary difference is that statutory financial statements do not reflect deferred policy acquisition costs, deferred income tax net assets, intangible assets, unrealized appreciation on investments but they do reflect any unauthorized/authorized reinsurance charges.

Certain statutory restrictions on the payment of dividends from retained earnings by the Company's subsidiaries are further detailed below.

Management has evaluated the principal operating subsidiaries' ability to maintain adequate levels of statutory capital, liquidity and rating agency capital and believes they will be able to do so. In performing this analysis, management has considered the most recent statutory capital position of each of the principal operating subsidiaries as well as the ability of the holding companies to allocate capital and liquidity around the group as and when needed.

Bermuda Operations

In early July 2008, the Insurance Amendment Act of 2008 was passed, which introduced a number of changes to the Bermuda Insurance Act 1978, such as allowing the Bermuda Monetary Authority (BMA) to prescribe standards for an enhanced capital requirement and a capital and solvency return that insurers and reinsurers must comply with. The Bermuda Solvency Capital Requirement (BSCR) 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. Insurers and reinsurers may adopt the BSCR model or, where an insurer or reinsurer believes that its own internal model better reflects the inherent risk of its business, an in-house model approved by the BMA. Class 4 (re)insurers, such as the Company, were required to implement the new capital requirements under the BSCR model beginning with fiscal years ending on or after December 31, 2009. The Company's capital requirements under the BSCR are highlighted in the table above. In addition to the BSCR based requirements, the BMA also prescribes minimum liquidity standards which must be met.

Under the Insurance Act 1978, amendments thereto and related regulations of Bermuda, XL Re Ltd is prohibited from declaring or paying dividends of more than 25% of each of their prior year's statutory capital and surplus unless they file with the BMA an affidavit stating that the dividend has not caused the Company to fail to meet its relevant margins. At December 31, 2014 and 2013, the maximum dividend that our company could pay, without a signed affidavit, having met minimum levels of statutory capital and surplus and liquidity requirements, was approximately $967.8 million and $967.2 million, respectively. No Class 4 (re) insurer may reduce its total statutory capital by 15% or more unless it has received the prior approval of the BMA, and it must also submit an affidavit stating that the proposed reduction will not cause it to fail to meet its minimum solvency margin or minimum liquidity ratio.

International Operations

The Company's international subsidiaries prepare statutory financial statements based on local laws and regulations. Some jurisdictions impose enhanced regulatory requirements on insurance companies while other jurisdictions impose fewer requirements. In some countries, the Company must obtain licenses issued by governmental authorities to conduct local insurance business. These licenses may be subject to minimum reserves and minimum capital and solvency tests. Jurisdictions may impose fines, censure, and/or impose criminal sanctions for violation of regulatory requirements. The majority of the actual statutory capital outside of Bermuda is held in Ireland ($1 billion at December 31, 2014). The Company's Irish operating subsidiary, XL Re Europe SE is required to seek prior approval from the Irish regulator to reduce its share capital or to pay dividends.

24. Significant Non-Cash Transactions

There were no significant non-cash transactions during the year.

25. Subsequent Events

Catlin Acquisition

On January 9, 2015, the ultimate parent entered into an implementation agreement (the "Implementation Agreement") with Catlin Group Limited ("Catlin") and Green Holdings Limited, a direct, wholly-owned subsidiary of the ultimate parent ("Green Holdings"), pursuant to which the ultimate parent will acquire the entire issued and to be issued share capital of Catlin (the "Acquisition") for cash and newly-issued ordinary shares of the ultimate parent. 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"), which is 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. In certain circumstances set forth in the Implementation Agreement, the Acquisition may alternatively be effected by means of a takeover offer or by a single-step merger of Catlin with and into Green Holdings under the Companies Act. Under the terms of the Acquisition, Catlin shareholders will be entitled to receive 388 pence in cash and 0.130 ordinary shares of the ultimate parent 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 the ultimate parent 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. It is intended that the newly-issued ordinary shares of the ultimate parent will be listed on the New York Stock Exchange following the completion of the Acquisition. For further information on the Acquisition, see the ultimate parent's Report on Form 8-K filed with the US Securities Exchange Commission (the "SEC") under Items 1.01, 2.03. 3.02, 8.01 and 9.01 on January 9, 2015.

In connection with the Acquisition, on January 9, 2015, the ultimate parent, Green Holdings and Catlin entered into a Merger Agreement (the "Merger Agreement"), which provides for the merger of Catlin with and into Green Holdings pursuant to Section 104H of the Bermuda Companies Act, with Green Holdings continuing as the surviving company (the "Merger"). If the Implementation Agreement is terminated, or if the ultimate parent publicly announces that the Acquisition will be implemented by another means in accordance with the Implementation Agreement, the Merger Agreement will terminate. The parties' respective boards of directors have approved the Merger and the Merger Agreement. The ultimate parent, as sole shareholder of Green Holdings, has approved the Merger and the Merger Agreement, and immediately following effectiveness of the Scheme, XL, as sole shareholder of Catlin, will approve the Merger and the Merger Agreement. The Scheme and the Merger are intended to be a single, integrated transaction that qualifies as a reorganization for US federal income tax purposes.

On January 9, 2015, the ultimate parent entered into contingent deliverable foreign exchange forwards with Morgan Stanley Capital Services LLC and Goldman Sachs International. The purpose of these transactions 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.

On January 9, in connection with the Acquisition, XL-Cayman, as borrower, the Company, XL-Ireland, X.L. America, Inc., XL Insurance (Bermuda) 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. The Bridge Loan Agreement contains financial covenants that require the ultimate parent to maintain a minimum consolidated net worth and a maximum ratio of total consolidated debt to the sum of total consolidated debt plus consolidated net worth, and that require each of the Company, XL Insurance (Bermuda) Ltd, and XL Re Europe SE to maintain a financial strength rating of no less than "A-" from A.M. Best & Co. The terms of the Bridge Facility also include customary affirmative covenants, negative covenants and events of default similar to those under our Syndicated Credit Agreement with additional covenants related to the Acquisition and mandatory commitment reduction and loan prepayment provisions in connection with asset sales and debt and equity issuances. If an event of default under the Bridge Loan Agreement shall occur and be continuing, the maturity of such loans (to the extent funded) and all other obligations of XL-Cayman under the Bridge Loan Agreement may be accelerated and all commitments terminated. For further information on the Bridge Facility, see the ultimate parent'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, the Company, and other shareholders of 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 40.0% of ARX's outstanding capital stock on a fully diluted basis at the time of the announcement. At December 31, 2014, the Company's shares in ARX are recorded at $204.4 million, 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. The Company 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 at December 31, 2014, and certain other factors.