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

FORM 10-K

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

For the fiscal year ended December 31, 2014

OR

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

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

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

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

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

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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

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

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

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

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

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

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

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

Documents Incorporated By Reference

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

XL GROUP PLC
TABLE OF CONTENTS

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

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

PART I

ITEM 1. BUSINESS

History

XL Group plc, through its subsidiaries, is a global insurance and reinsurance company providing property, casualty and specialty products to industrial, commercial and professional firms, insurance companies and other enterprises on a worldwide basis. We were incorporated with limited liability under the Cayman Islands Companies Act on March 16, 1998, as EXEL Merger Company. On August 7, 1998, EXEL Limited and Mid Ocean Limited merged to create EXEL Limited. EXEL Limited and Mid Ocean Limited were incorporated in the Cayman Islands with principal operations in Bermuda in 1986 and 1992, respectively. At a special general meeting held on February 1, 1999, the shareholders of EXEL Limited approved a resolution changing the name of the company to XL Capital Ltd.

On June 18, 1999, XL Capital Ltd merged with NAC Re Corp. (“NAC”), a Delaware corporation organized in 1985, in a stock merger.

On July 25, 2001, we acquired certain Winterthur International insurance operations to extend globally our predominantly North American-based large corporate insurance business.

Effective January 1, 2002, we increased our shareholding in Le Mans Ré from 49% to 67% in order to expand our international reinsurance operations. On September 3, 2003, we exercised our option to buy the remaining 33% from Les Mutuelles du Mans Assurances (“MMA”) and changed the name of Le Mans Ré to XL Re Europe S.A. On October 18, 2006, we received approval to form a new European company, XL Re Europe Limited, based in Dublin, Ireland, which is licensed to write all classes of reinsurance business; during 2013, that company re-registered as a European public limited liability company and changed its name to XL Re Europe SE. XL Re Europe SE is the headquarters of the Company’s European reinsurance platform with branch offices in France, Switzerland and the United Kingdom (the “U.K.”). On April 17, 2014, we received approval to open a branch office in Dubai.

On August 4, 2006, we completed the sale of approximately 37% of our then financial guarantee reinsurance and insurance businesses through an initial public offering of 23.4 million common shares of Syncora Holdings Ltd. (“Syncora”) (formerly Security Capital Assurance Ltd. or “SCA”). On June 6, 2007, we completed the sale of an additional portion of Syncora’s common shares still owned by the Company through a secondary offering and thereby reduced our ownership of Syncora’s outstanding common shares further from approximately 63% to approximately 46%. On August 5, 2008, we closed an agreement (the “Master Agreement”) with Syncora and its subsidiaries, as well as certain counterparties to credit default swap agreements, in connection with the termination of certain reinsurance and other agreements. As part of the Master Agreement, we transferred all of the shares we owned in Syncora to a trust and, as a result, have no further ownership interest in the company.

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

On May 1, 2014, our wholly-owned subsidiary, XL Insurance (Bermuda) Ltd ("XLIB"), entered into a sale and purchase agreement with GreyCastle Holdings Ltd ("GreyCastle") providing for the sale of 100% of the common shares of XLIB's wholly-owned subsidiary, XL Life Reinsurance (SAC) Ltd ("XLLR"), to GreyCastle (subsequent to the transaction, XLLR changed its name to GreyCastle Life Reinsurance (SAC) Ltd ("GCLR")). This transaction closed on May 30, 2014. As a result of the transaction, we have ceded the majority of our life reinsurance business to GCLR via 100% quota share reinsurance (the "Life Retro Arrangements"). This transaction covers a substantial portion of our life reinsurance reserves. We ceased writing new life reinsurance contracts in 2009 and since that time have been managing the run-off of our life reinsurance operations ("Run-Off Life Operations"). The designated investments that support the Life Retro Arrangements on a funds withheld basis ("Life Funds Withheld Assets") are managed pursuant to agreed investment guidelines that meet the contractual commitments of the Company's ceding subsidiaries and applicable laws and regulations. All of the investment results associated with the Life Funds Withheld Assets ultimately accrue to GCLR.

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

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

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

See further information under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Segments

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

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

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

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

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

Insurance Segment

General

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

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

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

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

International Property and Casualty ("IPC")

IPC includes the following lines of business: property, primary and excess casualty, and environmental liability.

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

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

North America Property and Casualty ("NAPC")

NAPC includes the following lines of business: property, primary and excess casualty, environmental liability, excess and surplus lines, construction, surety, and program business.

In addition to the property, casualty and environmental products described under IPC, the NAPC business unit also includes 100% property products for the large account risk engineered markets and general liability, United States ("U.S.") workers' compensation and auto liability for the risk management accounts, which require customers to take large deductibles or self-insured retentions.

Excess and surplus lines products include general liability property, excess auto and excess liability coverages where most Insurance Services Office, Inc. ("ISO") products are written. Targets include a variety of classes, with a focus on "one-off" risks generated by contracted wholesale brokers.

Construction products include property coverages (builders risk, contractors equipment, property and inland marine), general liability, U.S. workers' compensation and commercial auto, as well as professional liability for contractors and owners, excess umbrella, subcontractor default insurance, and primary casualty wrap ups.

Surety products include contract bonds, including bid, performance, payment and contractor qualification bonds, as well as commercial surety bonds, including appeal, court and qualification bonds. Products in general provide large capacity and are written on a sole surety, co-surety or shared surety basis.

Our program business specializes in insurance coverages for distinct market segments in North America, including program administrators and managing general agents who operate in a specialized market niche and have unique industry backgrounds or specialized underwriting capabilities. Products encompass mostly property and casualty coverages.

Global Professional Lines ("Professional")

Professional includes directors' and officers' liability, errors and omissions liability, employment practices liability, and technology and cyber liability coverages. Policies are written on both a primary and excess of loss basis. Directors' and officers' coverage includes primary and excess directors' and officers' liability related to both public and private companies and employment practices liability. Products are targeted at a variety of different sized companies, with a heavy concentration on small to medium-sized firms when written on a primary basis. Employment practices liability is written primarily for very large corporations on an excess of loss basis and covers those firms for legal liability in regard to the treatment of employees. Errors and omissions coverage is written on a primary and excess basis.

Errors and omissions insurance written on a primary basis is targeted to small and medium-sized firms and coverage is provided for various professional exposures, including, but not limited to, architects and engineers, insurance brokers, consultants, lawyers, public entities and real estate agents.

Global Specialty Lines ("Specialty")

Specialty includes the following lines of business: aviation and satellite, marine and offshore energy, fine art and specie, equine, product recall, political risk and trade credit, North America inland marine, political violence, and kidnap and ransom.

Aviation and satellite products include comprehensive airline hull and liability, airport liability, aviation manufacturers' product liability, aviation ground handler liability, large aircraft hull and liability, corporate non-owned aircraft liability, space third party liability and satellite risk including damage or malfunction during ascent to orbit and continual operation, and aviation war. Aviation liability and physical damage coverage is offered for large aviation risks on a proportional basis, while smaller general aviation risks are offered on a primary basis. Satellite risks are generally written on a proportional basis. The target markets for aviation and satellite products include airlines, aviation product manufacturers, aircraft service firms, general aviation operators and telecommunications firms.

Marine and offshore energy coverage includes marine hull and machinery, marine war, marine excess liability, cargo and offshore energy insurance. Fine art and specie coverages include fine art and other collections, jewelers block, cash in transit and related coverages for financial institutions. Equine products specialize in providing bloodstock and livestock insurance. Product recall coverages include product contamination for the food and beverage sector and end-product consumer goods and product guarantee aimed at component part manufacturers.

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

XL Global Asset Protection Services (“XL GAPS”)

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

Underwriting

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

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

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

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

Engineering

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

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

Reinsurance Ceded

In certain cases, the risks insured by us in the Insurance segment are partially reinsured by third party reinsurers. Reinsurance ceded varies by location and line of business based on a number of factors, including market conditions. The benefits of ceding risks to third party reinsurers include reducing exposure on individual risks, protecting against catastrophic risks, maintaining acceptable capital ratios and enabling the writing of additional business. Reinsurance ceded does not legally discharge us from our liabilities to the original policyholder in respect of the risk being reinsured.

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

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

Premiums

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

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

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

____

(1) Certain reclassifications have been made to conform to the current year presentation.
(2) Other includes excess and surplus, surety, structured indemnity and certain other discontinued lines.

Competition

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

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

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

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

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

Marketing and Distribution

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

We consider requests for contingent/additional commission arrangements where such contingent/additional commissions are based upon the volume of bound business originated from a specific producer during a calendar year, or based upon growth of a particular segment of business, where legal and appropriate. Such arrangements are distinct from program business where additional commissions are generally based on profitability of business submitted to and bound by us.

With regard to excess and surplus lines business, we receive submissions from licensed wholesale surplus lines brokers.

We have no implied or explicit commitments to accept business from any particular broker, and neither producers nor any other third party have the authority to bind us, except in the case where underwriting authority may be delegated contractually to selected general agents. Such general agents are subject to a financial and operational due diligence review prior to any such delegation of authority and we conduct ongoing reviews and audits as deemed necessary with the goal of assuring the continuing integrity of underwriting and related business operations. See Item 8, Note 19(a), “Commitments and Contingencies – Concentrations of Credit Risk,” to the Consolidated Financial Statements included herein, for information on our major producers.

Apart from compensation arrangements established with producers in connection with insurance transactions, we also have engaged, and may in the future engage, certain producers or their affiliates in consulting roles pursuant to which such producers provide access to certain systems and information and/or additional services that may assist us with our marketing and distribution. In instances where we engage producers in such consulting roles, we may compensate the relevant producers on a fixed fee basis, a variable fee basis based upon our usage of the systems and information proffered, through a combination of fixed and variable fees or in some jurisdictions, where appropriate, on a commission basis.

Claims Administration

Claims management for our insurance operations includes the review of initial loss reports, administration of claims databases, generation of appropriate responses to claims reports, identification and handling of coverage issues, determination of whether further investigation is required and, where appropriate, retention of claims counsel, establishment of case reserves, payment of claims and notification to reinsurers. With respect to the establishment of case reserves, when we are notified of insured losses, our claims personnel record a case reserve as appropriate for the estimated amount of the exposure at that time. The estimate reflects the judgment of claims personnel based on general reserving practices, the experience and knowledge of such personnel regarding the nature of the specific claim and, where appropriate, advice of counsel. Reserves are also established to provide for the estimated expense of settling claims, including legal and other fees and the general expenses of administering the claims adjustment process.

Claims in respect of business written by our Lloyd’s syndicate are handled by the lead syndicate, and on large or complex claims the second syndicate, participating on the risk who bind the following underwriters. The claims are processed by XChanging, the central market bureau. Where a syndicate is a “lead” syndicate on a Lloyd’s policy, its underwriters and claims adjusters will work directly with the broker or insured on behalf of itself and the other participating or "following" underwriters for any particular claim. This may involve appointing attorneys or loss adjusters. The lead syndicate advises movement in loss reserves to all syndicates participating on the risk. Our claims department may adjust the case reserves it records from those advised by the lead syndicate as deemed necessary.

Certain of our product lines have arrangements with third party administrators to provide claims handling services to us in respect of such product lines. These agreements set forth the duties of the third party administrators, limits of authority, protective indemnification language and various procedures that are required to meet statutory compliance. These arrangements are also subject to audit review by our relevant claim department.

Reinsurance Segment

General

Our reinsurance operations are structured geographically into business groups: Bermuda, North America and International (Europe, Asia Pacific, Latin America and Middle East North Africa ("MENA")). During the second quarter of 2013, the business groups were realigned to include Latin America within the International business group.

This segment provides casualty, property risk, property catastrophe, marine, aviation, crop, and other specialty reinsurance on a global basis with business being written on both a proportional and non-proportional treaty basis, and also on a facultative basis. Our lines of business within the Reinsurance segment continue to focus on those that provide the best risk adjusted return on capital. For our Reinsurance segment, challenging market conditions and the changing economic environment experienced since 2008 resulted in a greater emphasis being placed on short-tail lines of business.

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

circumstances, receive a profit commission based on performance of the contract. Occasionally this commission could be on a sliding scale depending on the loss ratio performance of the contract.

Our casualty reinsurance includes general liability, professional liability, automobile and workers' compensation. Professional liability includes directors' and officers', employment practices, medical malpractice and environmental liability. Casualty lines are written as treaties or programs, and on both a proportional and a non-proportional basis. The treaty business includes clash programs, which cover losses under a number of underlying policies involved in one occurrence or a judgment above an underlying policy's limit.

Our property business, primarily short-tail in nature, is written on both a portfolio/treaty and individual/facultative basis, and includes property catastrophe, property risk excess of loss and property proportional. A significant portion of the underwritten property business consists of large aggregate exposures to man-made and natural disasters and, generally, loss experience is characterized as low frequency and high severity. This may result in volatility in our results of operations, financial condition and liquidity. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

We seek to manage our reinsurance exposures to catastrophic events by limiting the amount of exposure written in each geographic or peril zone worldwide, underwriting in excess of varying attachment points and typically ensuring that contracts exposed to catastrophe loss include aggregate limits. We also seek to protect our total aggregate exposures by peril and zone through the purchase of reinsurance programs. Our property catastrophe reinsurance account is generally "all risk" in nature. As a result, we are exposed to losses from sources as diverse as hurricanes and other windstorms, earthquakes, freezing, riots, floods, industrial explosions, fires and many other potential natural or man-made disasters. In accordance with market practice, our policies generally exclude certain risks such as war, nuclear contamination or radiation. Following the terrorist attacks at the World Trade Center in New York City, Washington, D.C. and Pennsylvania on September 11, 2001 (collectively, "the September 11 event"), terrorism coverage, including nuclear, biological, radiological and chemical, has been restricted or excluded in many territories and classes. Some U.S. states require some cover for "Fire Following" terrorism and some countries make terrorism coverage mandatory. Our predominant exposure under such coverage is to property damage.

Property catastrophe reinsurance provides coverage on an excess of loss basis when aggregate losses and loss adjustment expenses from a single occurrence of a covered event, or multiple occurrences in the case of aggregate covers, exceed the attachment point specified in the policy. Some of our property catastrophe contracts limit coverage to one occurrence in any single policy year, but most contracts generally enable at least one reinstatement to be purchased by the reinsured. We also write property risk excess of loss reinsurance. Property risk excess of loss reinsurance covers a loss to the reinsured on a single risk of the type reinsured rather than to aggregate losses for all covered risks on a specific peril, as is the case with catastrophe reinsurance. Our property proportional account business includes reinsurance of direct property insurance. We seek to limit the catastrophe exposure from our proportional and per risk excess business through extensive use of occurrence and cession limits.

Other specialty reinsurance products include energy, marine, aviation, space, engineering, fidelity, surety, trade credit, accident and health, mortgage and political risk. In addition, we write several whole account capital gearing quota share contracts on select syndicates at Lloyd's.

The segment's most significant operating legal entities in 2014 based on revenues were as follows: XL Re Ltd, XL Re Europe SE, XL Reinsurance America Inc. and XL Re Latin America Ltd.

Underwriting

Underwriting risks for the reinsurance property and casualty business are evaluated using a number of factors including, but not limited to, the type and layer of risk to be assumed, the actuarial evaluation of premium adequacy, the cedant's underwriting and claims experience, the cedant's financial condition and claims paying rating, the exposure and/or experience with the cedant, and the line of business to be reinsured.

Other factors we assess include the reputation of the proposed cedant, the geographic area in which the cedant does business and its market share, a detailed evaluation of catastrophe and risk exposures, and historical loss data for the cedant, where available, and for the industry as a whole in the relevant regions in order to compare the cedant's historical loss experience to industry averages. On-site underwriting and claim reviews are performed where it is deemed necessary to determine the quality of a current or prospective cedant's underwriting operations, with particular emphasis on casualty proportional and working excess of loss placements.

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

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

Reinsurance Retroceded

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

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

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

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

Premiums

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

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

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

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

Competition

We compete globally in the property and casualty markets.

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

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

North America – Alleghany Corporation, Arch Re, Berkshire Hathaway Inc. ("Berkshire"), Everest Re Group Ltd ("Everest"), Hannover Re Group ("Hannover Re"), Munich Re Group ("Munich Re"), Partner, and Swiss Reinsurance America Corporation ("Swiss Re").

Europe and the rest of world – Arch Re, Asia Capital Reinsurance Group, AXIS, Berkshire, Everest, Hannover Re, IRB-Brazil Re, Lloyd's, Mapfre Re, Munich Re, Partner, Ren Re, SCOR Reinsurance Company, Swiss Re and Validus.

Marketing and Distribution

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

Claims Administration

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

Corporate and Other (Including Run-Off Life Operations)

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

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

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

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

Unpaid Losses and Loss Expenses

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

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

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

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

(U.S. dollars in millions)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
ESTIMATED LIABILITY FOR UNPAID LOSSES AND LOSS EXPENSES, NET OF REINSURANCE RECOVERABLES	$ 12,671	$ 17,200	$ 17,900	$ 18,191	$ 17,686	$ 17,266	$ 16,882	$ 16,984	$ 17,122	$ 17,066	$ 15,942
LIABILITY RE-ESTIMATED AS OF:											
One year later	13,785	17,090	17,475	17,580	17,401	16,893	16,597	16,668	16,833	16,811	
Two years later	13,675	16,828	16,631	17,286	17,027	16,503	16,274	16,440	16,518		
Three years later	13,607	16,155	16,441	16,956	16,639	16,261	16,001	16,120			
Four years later	13,258	16,067	16,064	16,550	16,350	15,941	15,779				
Five years later	13,236	15,796	15,667	16,287	15,982	15,735					
Six years later	13,068	15,448	15,500	15,940	15,756						
Seven years later	12,819	15,248	15,190	15,737							
Eight years later	12,702	15,039	14,988								
Nine years later	12,592	14,935									
Ten years later	12,497										
CUMULATIVE REDUNDANCY (DEFICIENCY)	174	2,265	2,912	2,454	1,930	1,531	1,103	864	604	255	
CUMULATIVE PAID LOSSES, NET OF REINSURANCE RECOVERIES, AS OF:											
One year later	$ 2,008	$ 3,437	$ 3,188	$ 3,207	$ 3,436	$ 3,028	$ 3,256	$ 3,366	$ 3,403	$ 3,440	
Two years later	3,884	5,759	5,620	5,673	5,848	5,530	5,581	5,870	5,890		
Three years later	5,181	7,590	7,528	7,471	7,860	7,283	7,451	7,676			
Four years later	6,392	8,936	8,787	8,941	9,229	8,757	8,799				
Five years later	7,386	9,882	9,763	9,896	10,290	9,801					
Six years later	8,098	10,636	10,463	10,689	11,098						
Seven years later	8,690	11,139	11,069	11,317							
Eight years later	9,115	11,602	11,548								
Nine years later	9,457	11,997									
Ten years later	9,777										

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

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

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

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

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

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

Current year net losses incurred

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

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

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

Prior year net losses incurred

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

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

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

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

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

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

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

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

Net loss reserves (disposed) acquired

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

Exchange rate effects

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

Net paid losses

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

Other loss related information

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

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

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

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

Investments

Investment structure and strategy

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

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

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

The Life Funds Withheld Assets are managed pursuant to agreed investment guidelines that meet the contractual commitments of our ceding companies and applicable laws and regulations. All of the investment results associated with the Life Funds Withheld Assets ultimately accrue to GCLR. Because we no longer share in the risks and rewards of the underlying performance of the supporting invested assets, we separate the Life Funds Withheld Assets from the rest of our investments. The remaining discussion in this section excludes the Life Funds Withheld Assets.

Strategic Asset Allocation

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

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

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

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

Investment Portfolio Structure

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

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

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

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

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

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

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

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

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

Use of Alternative Investment Strategies

We have been an active investor in alternative asset classes - principally hedge fund strategies and to lesser extents, private equity, private credit and real asset strategies – for over fifteen years. We believe alternative strategies have an important role to play in both our strategic asset allocation and as tactical deployments when compelling market opportunities arise. Most of our investments in alternative funds are sourced directly by teams within the Investment Group, who perform the initial screening and due diligence as well as the ongoing monitoring of such fund investments. Occasionally, we may work with third-party allocators who have a particular expertise in a sub-sector of alternative strategies to gain exposure to that subsector – typically via a customized portfolio of fund allocations.

Depending upon our level of ownership of each individual fund investment, we account for a portion of the portfolio in each alternative asset class as "investment fund affiliates" in accordance with the equity method and the remainder of the portfolio at estimated fair value, with changes in fair value recorded through accumulated other comprehensive income. We manage each allocation to an alternative asset class as a single portfolio of fund investments irrespective of how the individual fund investments are accounted for. All of our alternative fund investments reside in our P&C investment portfolio.

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

Implementation of investment strategy

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

Investment performance

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

Investment portfolio credit ratings, duration and maturity profile

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

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

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

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

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

Enterprise Risk Management

Risk Management Framework

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

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

Our ERM framework is designed to allow us to identify and understand material risk concentrations, including concentrations that have unattractive risk/reward dynamics so that prompt, appropriate, corrective or mitigating actions can be taken. To do this, we have risk management committees and processes to serve as points of managerial dialogue and convergence across our businesses and functional areas, to create risk aggregation methodologies, to develop specific risk appetites and to coordinate the identification, vetting and discussion of risk topics and metrics. As part of our ERM activities, we apply a suite of stress tests, tools, risk indicators, metrics and reporting processes that examine the consequences of low probability/high severity events (including those related to emerging risks) in order to take mitigating actions where required.

Risk Governance

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

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

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

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

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

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

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

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

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

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

Risk Appetite Management

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

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

1. We impose limits for each natural catastrophe peril region at a 1% tail value at risk ("TVaR") probability. This statistic indicates the average amount of net loss expected to be incurred if a loss above the 1% exceedance probability level has occurred.

2. For each event type other than natural catastrophes, we impose limits at a 1% exceedance probability. If we were to deploy the full limit, for any given event type, there would be a 1% probability that an event would occur during the next year that would result in a net underwriting loss in excess of the limit.

3. We also impose limits for certain other event types at a 0.4% exceedance probability as described in further detail below. If we were to deploy the full limit, for any such given event type, there would be a 0.4% probability that an event would occur during the next year that would result in a net underwriting loss in excess of the limit.

For planning purposes and to calibrate 2015 risk tolerances, we set our underwriting limits as a percent of September 30, 2014 Adjusted Tangible Shareholders' Equity ("Adjusted Tangible Shareholders' Equity"). Adjusted Tangible Shareholders' Equity is defined as Total Shareholders' Equity less (i) Goodwill and Other Intangible Assets, less (ii) Accumulated Other Comprehensive Income ("AOCI") adjusted for net movements relating to Life Retro Arrangements. These limits may be recalibrated, from time to time, to reflect material changes in Total Shareholders' Equity that may occur after September 30, 2014, at the discretion of management and as overseen by the Board.

Tiered risk tolerances are set for natural catastrophes, terrorism, other realistic disaster scenarios, country risk, longevity risk and pandemic risk. In setting our risk tolerances we consider such factors as:

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

Per event 1% TVaR underwriting limits for North Atlantic Windstorm are set at a level not to exceed approximately 22% of Adjusted Tangible Shareholders' Equity. Per event 1% TVaR underwriting limits for North American Earthquake are set at a level not to exceed approximately 20% of Adjusted Tangible Shareholders' Equity. Per event 1% TVaR underwriting limits for all other natural catastrophe peril regions are set below the per event 1% TVaR limits described above.

The largest of the per event 1% exceedance probability underwriting limits for terrorism and other realistic disaster scenarios is set at a level not to exceed approximately 13.5% of Adjusted Tangible Shareholders' Equity; limits at the per event 1% exceedance probability for the remaining terrorism and realistic disaster scenarios are set below this level.

The largest of the per event 1% exceedance probability underwriting limits for country risk is set at a level not to exceed approximately 6% of Adjusted Tangible Shareholders' Equity.

The largest of the per event 1% exceedance probability underwriting limit for pandemic risk is set at a level not to exceed approximately 6.1% of Adjusted Tangible Shareholders' Equity.

The largest per event 1% exceedance probability underwriting limit for longevity risk is set at a level not to exceed approximately 1.5% of Adjusted Tangible Shareholders' Equity.

The largest of the per event 0.4% exceedance probability underwriting limits for certain terrorism events is set at a level not to exceed approximately 18% of Adjusted Tangible Shareholders' Equity; limits at the per event 0.4% exceedance probability for the remaining terrorism event scenarios are set below this level.

The largest per event 0.4% exceedance probability underwriting limit for pandemic risk is set at a level not to exceed approximately 8.1% of Adjusted Tangible Shareholders' Equity.

The largest per event 0.4% exceedance probability underwriting limit for longevity risk is set at a level not to exceed approximately 2.0% of Adjusted Tangible Shareholders' Equity.

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

In setting underwriting limits, we also consider such factors as:

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

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

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

For the above and other reasons, the incidence, timing and severity of catastrophes and other event types are inherently unpredictable and it is difficult to estimate the amount of loss any given occurrence will generate. As a consequence, there is material uncertainty around our ability to measure exposures associated with individual events and combinations of events. This uncertainty can cause actual exposures and losses to deviate from those amounts estimated, which in turn can create a material adverse effect on our financial condition and results of operations and may result in substantial liquidation of investments, possibly at a loss, and outflows of cash as losses are paid. For this reason, we carry capital in addition to that required by the specific limits described even if it is in excess of rating agency and regulatory required capital.

For a further discussion on risk appetite management see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Other Key Focuses of Management.”

Impact of ERM Processes

We believe that our ERM processes improve the quality and timeliness of strategic decisions, enhance the integration of strategic initiatives with the risks related to such initiatives and act as catalysts to improve risk awareness and informed action by us. We believe that the integration of ERM with existing business processes and controls optimizes the risk/reward characteristics of business strategies, enhances our overall risk management culture, and is central to our capital allocation process.

In addition, our ERM processes complement our overall internal control framework by helping to manage an organization of our size and the variety of our businesses, investment activities and geographical reach. However, internal controls and ERM can provide only reasonable, not absolute, assurance that control objectives will be met. As a result, the possibility of material

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

Regulation

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

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

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

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

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

Ireland

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

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

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

United Kingdom

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

Other European Union

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

Bermuda

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

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

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

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

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

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

Two of our Bermuda entities are approved for reduced collateral within New York and Florida, respectively. XLIB is qualified for reduced collateral in the state of New York. XL Re Ltd is qualified for reduced collateral in the state of New York as well as the state of Florida. This annual certification permits these two Bermuda subsidiaries to post reduced collateral allowing U.S. ceding companies to take credit for reinsurance on their financial statements.

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

United States

In the United States, we are subject to extensive regulation in the jurisdictions in which we conduct our business. The state legislatures and/or state (re)insurance regulators consider or enact laws or regulations that may alter or increase the regulation of (re)insurance companies and (re)insurance holding companies. State laws and regulations that are adopted or amended may be more restrictive than current laws and regulations and may affect our operations and financial condition and could adversely affect our results of operations through lower revenue and/or higher costs of compliance and limit our growth. For example, regulators may choose to restrict the ability of subsidiaries to make payments to their parent companies, reject rate increases or increase the statutory capital requirements of our operating subsidiaries.

There are a number of proposals to amend state insurance laws and regulations in ways that could affect our insurance operating subsidiaries. The National Association of Insurance Commissioners (“NAIC”) has recently adopted or amended model laws on holding company regulation that would provide for supervision of insurers at the corporate group level. Although such changes are only beginning to be considered or adopted by individual state regulators, it can be expected that most state regulators will ultimately adopt them in some form. The various proposals to implement group supervision include uniform standards for insurer corporate governance, group-wide supervision of insurance holding companies, adjustments to risk-based capital calculations to account for group-wide risks and additional regulatory and disclosure requirements for insurance holding companies.

Additionally, the NAIC has undertaken the Solvency Modernization Initiative (“SMI”), which focuses on a review of insurance solvency regulations throughout the U.S. financial regulatory system and will lead to a set of long-term solvency modernization goals. SMI is broad in scope, but the NAIC has stated that its focus will include the U.S. solvency framework, group solvency issues, capital requirements, international accounting and regulatory standards, reinsurance and group regulatory issues.

Currently, our U.S. regulated operating subsidiaries are required to file detailed annual and, in most states, quarterly reports with state insurance regulators in each of the states in which they are licensed or accredited. In addition, these subsidiaries’ operations and accounts are subject to financial condition and market conduct examination at regular intervals by state regulators. The most recent financial condition examination for our seven U.S. property/casualty insurance and reinsurance subsidiaries was completed in June of 2012 and covered the five-year period ended December 31, 2010. The reports issued by the three states of domicile at the time of the examination (New York, Delaware and North Dakota) concluded that all findings from the prior examination had been effectively addressed, and no new findings were reported. Effective July 1, 2013, Indian Harbor Insurance Company, an eligible surplus lines insurer, was re-domiciled from North Dakota to Delaware. XL Life Insurance and Annuity Company, an Illinois-domiciled life insurer, recently underwent a financial conduct examination for the five-year period ended December 31, 2012. No issues were identified in the report issued by the Illinois Department of Insurance in August of 2014.

Our U.S. regulated operating subsidiaries are subject to various state statutory and regulatory restrictions that limit the amount of dividends that may be paid from earned surplus without prior approval from regulatory authorities. These restrictions differ by state, but are generally based on a calculation of the lesser of 10% of statutory surplus or 100% of “adjusted net investment income” to the extent that it has not previously been distributed.

While the U.S. federal government currently does not directly regulate the insurance business in the U.S. (other than for flood and nuclear insurance and reinsurance of losses from terrorism), federal legislation and administrative policies can affect the insurance industry. For example, the future availability of any federal backstop program for qualifying terrorism losses, currently the Terrorism Risk Insurance Program Reauthorization Act of 2015, or modifications of the terms and conditions of such program may affect the insurance industry's ability and capacity to offer terrorism coverage in the United States. Additionally, in July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) was passed into law. Dodd-Frank requires the creation of a Federal Insurance Office ("FIO") within the Treasury Department that is focused on national coordination of the insurance sector, systemic risk mitigation and international regulatory cooperation. Although the FIO currently does not directly regulate the insurance industry, under Dodd-Frank it has the power to preempt state insurance regulations that are inconsistent with international agreements regarding insurance regulation, subject to certain exceptions. On December 14, 2013, the FIO submitted a report to Congress as required under Dodd-Frank on improving U.S. insurance regulation. The report raises concerns about states' regulation of multi-state insurers and proposes that insurers need to be

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

Other International Operations

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

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

Switzerland

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

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

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

Latin America

We have both insurance and reinsurance operations in the Latin American region, with local companies writing business in Brazil and Mexico and representative offices in Argentina and Colombia. Other than the Colombia representative office and a services branch in Mexico, all the legal entities in the region are subsidiaries. In regions other than Brazil and Mexico, we act as a foreign reinsurer. Nearly all regulators in the Latin America region require foreign reinsurers to be registered or licensed for local cedants to place business with them.

The extent of regulation in the region varies significantly in the countries in which we conduct business. Typically, each country has regulations relating to solvency, auditing, internal controls and financial reporting, but the type and extent of the requirements differs substantially. Other regulations in the region that impact our operations but are not specific to insurance or reinsurance include those relating to foreign currency exchange control, data protection legislation, anti-money laundering and other financial crimes and sanctions.

China

Our Chinese regulated operating subsidiary is regulated by the China Insurance Regulatory Commission (the “CIRC”) under the People’s Republic of China Insurance Law. CIRC’s regulatory regime includes requirements relating to licensing, capital, solvency, reserves, reinsurance, transactions between affiliates, approval and filing of policy wordings and rates, corporate governance, disclosure and periodic reporting. To carry on (re)insurance business in a foreign currency, the subsidiary is also subject to licensing and foreign currency exchange control by the State Administration of Foreign Exchange.

Solvency II Equivalence

The supervisory regimes governing our operating subsidiaries domiciled in each of Bermuda and Switzerland were considered in EIOPA's December 2014 third country equivalence assessments under Solvency II. EIOPA has provisionally advised that both Switzerland and Bermuda meet the criteria set out in EIOPA's methodology, with certain caveats, for equivalence assessments for the following three categories: (i) reinsurance supervision, (ii) third country group supervision, and (iii) calculating group solvency.

The European Commission (“Commission”), having considered the advice of EIOPA, is required to submit to the European Parliament and Council a recommendation whether each of Bermuda and Switzerland meets or does not meet the criteria for equivalence assessment in each of the above three categories. With regard to each category, the Commission may recommend that Switzerland and Bermuda should be assessed to have achieved full equivalence or temporary equivalence. The Commission recommendations on full and temporary equivalence (and another category for "provisional equivalence" for countries such as the United States-see below) are expected to be presented in Spring and Autumn on a category by category basis. The European Parliament and Council each have six months from receipt of the European Commission’s recommendation to confirm or reject such findings.

In the event that Bermuda or Switzerland do not obtain full equivalence with respect to all three categories above, we would expect the following to apply but there can be no assurance that this will be the outcome:

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

See Item 1A, "Risk Factors - The regulatory regimes under which we operate, and potential change thereto, could have a material adverse effect on our business", for risks to our business, including in the event that either Bermuda's or Switzerland's supervisory regime is not considered equivalent to the Solvency II regime.

The United States is currently expected to receive a provisional equivalence recommendation from the Commission although there is no assurance of this outcome. This finding would allow some companies, not including us currently, to benefit from U.S. local solvency calculations in their group calculations for a ten year period as provided above. This designation is for group solvency calculations only and excludes reinsurance and group supervision.

Employees

At December 31, 2014, we had 4,663 employees. At that date, 314 of our employees were represented by workers' councils and 403 of our employees were subject to industry-wide collective bargaining agreements in several countries outside the United States.

Available Information

The public can read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC. The address of the SEC's website is *http://www.sec.gov.*

Our website address is *http://www.xlgroup.com.* The information contained on our website is not incorporated by reference into this Annual Report on Form 10-K or any other of our documents filed with or furnished to the SEC.

We make available free of charge, including through our website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. **Upon written or oral request, we will promptly deliver, without charge, to any shareholder a copy of the Annual Report on Form 10-K. Requests for copies should be submitted to the Company Secretary at XL Group, 100 Washington Blvd., 6th Floor, Stamford, CT 06902, United States of America or (203) 964-5500.**

We have adopted Corporate Governance Guidelines, written charters for each of the Audit Committee, the Management Development and Compensation Committee, the Nominating, Governance and External Affairs Committee and the Risk and Finance Committee, as well as a Code of Conduct and a related Compliance Program. Each of these documents is posted on our website at *http://www.xlgroup.com*, and each is available in print to any shareholder who requests it by writing to us at Investor Relations Department, XL Group plc, 100 Washington Blvd., 6th Floor, Stamford, CT 06902, United States of America.

We intend to post on our website any amendment to, or waiver of, a provision of our Code of Conduct that applies to our Chief Executive Officer, Chief Financial Officer and Corporate Controller or persons performing similar functions and that relates to any element of the code of ethics definition set forth in Item 406 of Regulation S-K under the Securities Act of 1933, as amended.

We intend to use our website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Such disclosures will be included on the website in the "Investor Relations" section. Accordingly, investors should monitor such portions of our website, in addition to following our press releases, SEC filings and public conference calls and webcasts.

ITEM 1A. RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The interdependencies among European economies and financial institutions and between such European economies and financial institutions and those of the rest of the world have also exacerbated concern regarding the stability of European financial markets generally and certain institutions in particular. One or more Euro-zone countries could come under increasing pressure to leave the European Monetary Union or the European Union, or the Euro as the single currency of the Euro-zone could cease to exist if the European Monetary Union were dissolved. These or other actions could ultimately result in the European Union ceasing to exist. Any of these developments, or the perception that any of these developments are likely to occur, could lead to severe economic recession or depression. If one or more significant countries abandon the Euro or the European Monetary Union dissolves, it may result in uncertainty with respect to the terms, value or enforceability of certain bonds, instruments or contracts, which could result in a material loss to us. Similarly, if a country leaving the Euro-zone imposes currency controls, such controls may have a material adverse impact on the value of and our ability to withdraw funds from that country.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We hold certain investments that may lack liquidity or for which the availability of prices or inputs may be reduced in periods of market dislocation, such as non-agency residential mortgage-backed and collateralized debt obligations securities. Even some of our high quality assets have been more illiquid during periods of challenging market conditions. Generally, securities classified as Level 3 pursuant to the fair value hierarchy set forth in authoritative accounting guidance over fair value measurements may be less liquid, may be more difficult to value, requiring significant judgment, and may be more likely to result in sales at materially different amounts than the fair values determined by management.

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

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

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

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

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

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

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

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

Changes to industry practices of legal, judicial, social, political, legislative or other environmental conditions or disruptions that affect businesses' continuity and interdependencies (including supply chain dependencies) could cause unexpected issues related to claim and coverage as well as additional forms of loss experience to emerge. These issues may adversely affect our business by either expanding coverage beyond our underwriting intent or by increasing the number or size of claims, such as the effects that disruptions in the credit markets could have on the number and size of reported claims under directors and officers liability insurance ("D&O") and professional liability insurance lines of business. In some instances, these changes may not become apparent until sometime after we have issued the insurance or reinsurance contracts that are affected by the changes. Historically such claims and coverage issues have occurred at heightened levels during periods of very soft market conditions, which often reflect an inflection point in the typical cycle of insurance industry market conditions. In addition, our actual losses may vary materially from our current loss estimates based on a number of factors, including receipt of additional information from insureds or brokers, the attribution of losses to coverages that had not previously been considered as exposed and inflation in repair costs due to additional demand for labor and materials. As a result, the full extent of liability under an insurance or reinsurance contract may not be known for many years after such contract is issued and a loss occurs.

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

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

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

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

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

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

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

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

reinsurer has assumed. Reinsurance, including retrocessional reinsurance, does not legally discharge the ceding company from its liability with respect to its obligations to its insureds or reinsureds. A reinsurer's or retrocessionaire's insolvency, inability or refusal to make timely payments under the terms of its agreements with us, therefore, could have a material adverse effect on us because we remain liable to our insureds and reinsureds. For further information regarding our reinsurance exposure, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

From time to time, market conditions may limit or prevent us from obtaining the types and amounts of reinsurance that we consider adequate for our business needs such that we may not be able to obtain reinsurance or retrocessional reinsurance from entities with satisfactory creditworthiness in amounts that we deem desirable or on terms that we deem appropriate or acceptable.

The impairment of other financial institutions could adversely affect us.

We have exposure to counterparties in various industries, including banks, hedge funds and other investment vehicles, and in reinsurance and other transactions, including derivative transactions. Many of these transactions expose us to credit risk in the event our counterparty fails to perform its obligations. Even if we are entitled to collateral when a counterparty defaults, such collateral may be illiquid or proceeds from such collateral when liquidated may not be sufficient to recover the full amount of the obligation. We also have exposure to financial institutions in the form of secured and unsecured debt instruments and equity securities. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Since we depend on a few brokers for a large portion of our revenues, loss of business provided by any one of them could adversely affect us.

We market our insurance and reinsurance products worldwide primarily through insurance and reinsurance brokers. AON Corporation, Marsh & McLennan Companies and the Willis Group and their respective subsidiaries each provided significant portions of our gross written premiums for property and casualty operations. Loss of all or a substantial portion of the business provided by one or more of these brokers could have a material adverse effect on our business.

Our reliance on brokers subjects us to credit risk.

In certain jurisdictions, when an insured or ceding insurer pays premiums for policies of insurance or contracts of reinsurance to brokers for further payment to us, such premiums might be considered to have been paid and the insured or ceding insurer will no longer be liable to us for such amounts, whether or not we have actually received the premiums from the broker. In addition, in accordance with industry practice and contract terms, we generally pay amounts owed on claims under our reinsurance contracts to brokers, and these brokers, in turn, pay these amounts over to the clients that have purchased reinsurance from us. Although in some jurisdictions the law is unsettled and depends upon the facts and circumstances of the particular case, if a broker fails to make such a claims payment to the insured or ceding insurer, we generally remain liable to the insured or ceding insurer for that non-payment. Consequently, we assume a degree of credit risk associated with the brokers with whom we transact business. Due to the unsettled and fact-specific nature of the law governing these types of scenarios and our lack of historical experience with such risks, we are unable to quantify our exposure to this risk.

We are subject to a number of risks associated with the global nature of our business.

A material portion of our revenues is derived from our clients in Europe, North America and Bermuda. Weak demand or market disruption in these regions could have a material adverse impact on our results of operations. We have also continued to pursue opportunities in other countries, including in developing markets such as Asia, Africa and Latin America. Differing economic conditions and patterns of economic growth and contraction in the regions in which we operate could make it more difficult to forecast accurately product demand and effectively develop business, which could adversely affect our results of operations.

In conducting business in developing markets we are subject to a number of significant risks. These risks include restrictions such as price controls, capital controls, exchange controls, ownership limits and other restrictive governmental actions, which could have an adverse effect on our business and our reputation. The occurrence of one or more of these or other risks in one country may affect our operations in another country or countries. In addition, some countries, particularly developing economies, have laws and regulations that lack clarity and, even with local expertise and effective controls, it can be difficult to determine the exact requirements of the local laws. Other risks are less developed forms of government supervision, regulation and legal process including less developed corporate, contract and bankruptcy laws, difficulty in enforcing contractual obligations, and the lack of uniform accounting and auditing standards. Failure to comply with local laws in a particular market could have a significant and negative effect not only on our business in that market but also on our reputation generally.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We believe that our modeling, underwriting and information technology and application systems are critical to our business, as our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Moreover, our information technology and application systems have been important to our underwriting process and our ability to compete successfully. Our business depends on effective information systems and the integrity and timeliness of the data we use to run our business. Our ability to adequately price products and services, to establish reserves, to provide effective and efficient service to our clients, and to timely and accurately report our financial results also depends significantly on the integrity of the data in our information systems and processes supporting them. Failure of any of these systems or inaccuracies in the data stored therein may jeopardize our ability to service and interact with clients and report to regulators, which could result in significant losses, reputational damage or regulatory non-compliance. In addition, we have licensed certain systems and data from third parties. We cannot be certain that we will have access to these, or comparable, service providers, or that our information technology or application systems will continue to operate as intended.

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

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

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

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

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

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

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

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

TRIA voided in force terrorism exclusions as of November 26, 2002 for certified terrorism on all TRIA specified property and casualty business. TRIA required covered insurers to make coverage available for certified acts of terrorism on all new and renewal policies issued after TRIA was enacted. TRIA along with further extensions to TRIP, as noted above, allows us to assess a premium charge for terrorism coverage and, if the policyholder declines the coverage or fails to pay the buy-back premium, certified acts of terrorism may then be excluded from the policy, subject, however, to state specific requirements. Terrorism coverage cannot be excluded from workers’ compensation policies. Subject to a premium-based deductible and provided that we have otherwise complied with all the requirements as specified under TRIPRA, we are eligible for reimbursement by the Federal Government for up to 85% (which decreases to 80% in 2020) of our covered terrorism-related losses arising from a certified terrorist attack. Such payment by the government will, in effect, provide reinsurance protection on a quota share basis. The maximum liability during a program year, including both the Federal Government’s and insurers’ shares, is capped on an aggregated basis at $100 billion. While regulations have been promulgated by the Department of the Treasury (“Treasury”) requiring that Treasury advise participating insurers, such as the Company, in advance of reaching the $100 billion aggregate limit that such aggregate limit could be reached during the program year, there is a risk that the Company will not be given adequate notice of the potential exhaustion of that aggregate limit. Accordingly, the Company could overpay with regard to such losses, and it is unlikely Treasury would reimburse the Company for such losses; moreover, it is unclear whether the Company, in the event of an overpayment, would be able to recover the amount of any such overpayment.

In addition, there is a risk that the occurrence of an event that results in an industry loss that exceeds the $100 billion cap will result in the Company not being reimbursed and reduced coverage for policyholders with terrorism coverage.

We believe that TRIP and the related legislation have been an effective mechanism to assist policyholders and industry participants with the extreme contingent losses that might be caused by acts of terrorism. Nevertheless, we cannot provide assurance that TRIPRA 2015 will be extended beyond 2020, and its expiration or a significant change in terms could have an adverse effect on us, our clients or the insurance industry.

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

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

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

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

In addition to these proposals and initiatives in the United States, new capital adequacy and risk management regulations, called Solvency II, will be implemented throughout the EEA by January 1, 2016. The CBI has informed us that it will be our group regulator under Solvency II. See Item 1, "Business – Regulation". Regulations and legislation relating to capital adequacy and risk management are also in the process of being developed or implemented in other jurisdictions. There remains significant uncertainty as to the impact that these various regulations and legislation will have on us; however, such impact could include constraints on our ability to move capital between subsidiaries or require that additional capital be provided to subsidiaries in certain jurisdictions, which may impact our profitability.

Whether as a result of Solvency II or similar risk-based capital regimes, various (re)insurance companies are seeking approval of internal models by January 1, 2016 from their relevant regulators for determining their required regulatory capital. We have been engaging with our group supervisor on our group internal capital model and are seeking internal model approvals for certain of our operating subsidiaries. The Acquisition could delay the approval of our internal capital model and other internal models to beyond January 1, 2016. If these internal models are not approved, either due to the Acquisition or other considerations raised by the CBI or any other regulator as part of the model review process, there is a risk that we will be

required to hold more regulatory capital (e.g., on a standard formula basis) than our internal models might otherwise indicate, which could have a material adverse effect on our capital and surplus.

In addition, under Solvency II, E.U. cedants placing reinsurance with (re)insurers that are domiciled in either the E.U. (or in countries that are deemed equivalent to the Solvency II regime for these purposes) will receive full credit for such reinsurance after January 1, 2016. Our operating subsidiaries that are not domiciled in the E.U. (and that are not otherwise domiciled in Solvency II equivalent jurisdictions) that provide reinsurance to E.U. cedants may be required to post collateral to receive full credit for the reinsurance ceded. This could increase the cost of doing business and which could have a material adverse effect on our results of operations. Similarly, there is a risk that our operating subsidiaries purchasing reinsurance protection from (re)insurers not domiciled in the E.U. (and that are not domiciled in jurisdictions that are deemed SII equivalent) will not receive full credit for such reinsurance which could have a material impact on our business, financial condition and results of operations. See Item 1, “Business - Regulation - Solvency II Equivalence” for more information regarding the Solvency II equivalence process.

Our Bermuda-based operating subsidiaries are subject to the BMA’s risk-based capital standards for (re)insurance companies, which impose required levels of statutory capital and surplus on our Bermuda-based operating standards. While our Bermuda-based operating subsidiaries currently have excess capital and surplus under these requirements, such requirements or similar regulations, in their current form or as may be amended in the future, may have a material adverse effect on our business, financial condition or results of operations.

In addition to insurance and financial industry regulations, our activities are also subject to relevant economic and trade sanctions, money laundering regulations, and anti-corruption laws including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act 2010, which may increase the costs of compliance, limit or restrict our ability to do business or engage in certain activities, or subject us to the possibility of civil or criminal actions or proceedings. Although we have in place systems and controls designed to comply with applicable laws and regulations, there can be no assurance that we, our employees, or our agents acting on our behalf are in full compliance with all applicable laws and regulations or their interpretation by the relevant authorities and, given the complex nature of the risks, it may not always be possible for us to ascertain compliance with such laws and regulations. Failure to comply with or to obtain appropriate authorizations and/or exemptions under such laws or regulations could subject us to investigations, criminal sanctions or civil remedies, including fines, injunctions, loss of an operating license, reputational consequences, and other sanctions, all of which could have a material adverse effect on our business.

We may not be able to comply fully with, or obtain desired exemptions from, revised statutes, regulations and policies that govern the conduct of our business. Failure to comply with, or to obtain desired authorizations and/or exemptions under, any applicable laws could result in restrictions on our ability to do business or undertake activities that are regulated in one or more of the jurisdictions in which we operate and could subject us to fines and other sanctions. In addition, changes in the laws or regulations to which we are, or may become subject, or in the interpretations thereof by enforcement or regulatory agencies, could have a material adverse effect on our business, financial condition and results of operations.

Potential government intervention in our industry and instability in the marketplace for insurance products could hinder our flexibility and negatively affect the business opportunities that may be available to us in the market.

Government intervention and the possibility of future government intervention have created uncertainty in the insurance and reinsurance markets. Government regulators are generally concerned with the protection of policyholders to the exclusion of other constituencies, including shareholders of insurers and reinsurers. While we cannot predict the exact nature, timing or scope of possible governmental initiatives, such proposals could adversely affect our business by, among other things:

- providing insurance and reinsurance capacity in markets and to consumers that we target, e.g., the creation or expansion of state or federal catastrophe funds such as those in the state of Florida;
- requiring our participation in industry pools and guarantee associations;
- expanding the scope of coverage or altering the enforceability of deductibles under existing policies;
- regulating the terms of insurance and reinsurance policies;
- ordering the suspension of or otherwise altering the application of insurance laws or regulations; or
- disproportionately benefiting the companies of one country over those of another.

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

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

Consolidation in the insurance industry could adversely impact us.

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

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

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

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

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

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

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

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

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

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

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

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

In particular, our Articles of Association provide that if, and for so long as, the votes conferred by the Controlled Shares (as defined below) of any person constitute 10% or more of the votes conferred by all our issued shares, the voting rights with respect to the Controlled Shares of such person shall be limited, in the aggregate, to a voting power equal to approximately (but slightly less than) 10%, pursuant to a formula set forth in the our Articles of Association. “Controlled Shares” of a person (as defined in our Articles of Association) include (1) all of our shares owned directly, indirectly or constructively by that person (within the meaning of Section 958 of the Internal Revenue Code of 1986, as amended (the “IRS Code”) and (2) all of our shares owned directly, indirectly or constructively by that person or any “group” of which that person is a part, within the meaning of Section 13(d)(3) of the Exchange Act.

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

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

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

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

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

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

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

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

Irish law allows shareholders to authorize a board of directors to issue shares subsequent to receipt of authorization without further shareholder approval, but this authorization must be renewed after five years. Additionally, subject to specified exceptions, Irish law grants statutory preemption rights to existing ordinary shareholders to subscribe for new issuances of shares for cash, but allows such shareholders to authorize the waiver of such statutory preemption rights for five years. Our Articles of Association currently provide authority to the Board of Directors to issue shares without further shareholder approval and to waive ordinary shareholders’ statutory preemption rights. However, the share issuance authorization may expire upon the effectiveness of new Irish company legislation and the preemption opt-out provision will expire in 2015, in each case, unless renewed by XL-Ireland’s shareholders, and these authorizations and waivers may not always be renewed, which could limit our ability to issue equity in the future.

It may be difficult to enforce judgments against XL-Ireland, XL-Cayman or their directors and executive officers.

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

- the judgment must be for a definite sum;
- the judgment must be final and conclusive; and
- the judgment must be provided by a court of competent jurisdiction.

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

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

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

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

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

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

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

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

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

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

Changes in U.S. tax law might adversely affect an investment in our shares.

Legislation may be introduced in the U.S. Congress attempting to eliminate certain perceived tax advantages of companies (including insurance companies) that have legal domiciles outside the U.S. but have certain U.S. affiliates. For example, one legislative proposal could impose additional limits on the deductibility of interest by foreign-owned U.S. corporations. Another legislative proposal could modify the standards that indicate when a non-U.S. corporation might be treated as a U.S. corporation for U.S. federal income tax purposes if it were considered to be primarily managed and controlled in the U.S. In addition, legislation has been proposed in the U.S. that would severely restrict the ability of a company to utilize affiliate reinsurance to manage its U.S. risks and its capital position. Various proposals have been made that would effectively disallow (in some cases permanently and in others temporarily) part or all of the deduction for premiums ceded to affiliates. If any of these proposals, or a similar proposal using the same underlying principles, is enacted, it could have an adverse impact on us or our shareholders. It is possible that other legislative proposals could emerge in the future that could also have an adverse impact on us or our shareholders.

Additionally, the U.S. federal income tax laws and interpretations, including those regarding whether a company is engaged in a trade or business (or has a permanent establishment) within the United States or is a Passive Foreign Investment Company ("PFIC"), or whether U.S. holders would be required to include in their gross income "subpart F income" or the related person insurance income, which we refer to as "RPII" of a Controlled Foreign Corporation ("CFC"), are subject to change, possibly on a retroactive basis. There are currently no regulations regarding the application of the PFIC rules to insurance companies and the regulations regarding RPII are still in proposed form. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming. We cannot be certain if, when or in what form such regulations or pronouncements may be provided and whether such guidance will have a retroactive effect.

We cannot assure you that future legislative action will not increase the amount of U.S. tax payable by us. If an increase occurs, our financial condition and results of operations could be materially adversely affected.

There is U.S. income tax risk associated with reinsurance between U.S. insurance companies and their Bermuda affiliates.

As discussed above, the U.S. Congress has periodically considered legislation intended to eliminate certain perceived tax advantages of non-U.S. insurance companies and U.S. insurance companies with non-U.S. affiliates, including perceived tax benefits resulting principally from reinsurance between or among U.S. insurance companies and their non-U.S. affiliates. In this regard, section 845 of the IRS Code was amended in 2004 to permit the IRS to reallocate, recharacterize or adjust items of income, deduction or certain other items related to a reinsurance agreement between related parties to reflect the proper "amount, source or character" for each item (in contrast to prior law, which only covered "source and character"). If the IRS were to successfully challenge our reinsurance arrangements under section 845, our financial condition and results of operations could be materially adversely affected and the price of our ordinary shares could be adversely affected.

The Organization for Economic Co-operation and Development has launched an Action Plan on Base Erosion and Profit Shifting that if implemented might change the manner in which we are taxed.

In July 2013, The Organization for Economic Co-operation and Development ("the OECD") launched an Action Plan on Base Erosion and Profit Shifting ("BEPS Action Plan"). The BEPS Action Plan identifies 15 specific actions to address tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity, resulting in little or no overall corporate tax being paid. In addition, the BEPS Action Plan sets deadlines to implement the actions and identifies the resources needed and the methodology to implement these actions. The OECD reports and recommendations for the 15 actions outlined in the plan are expected to be finalized and delivered by December 31, 2015. For the first time in tax matters, non-OECD/G20 countries are involved on an equal footing in delivering these actions. The implementation of these actions could have a material impact on how we and other multinational organizations are taxed.

If an investor acquires 10% or more of our ordinary shares, it may be subject to taxation under the U.S. "controlled foreign corporation" ("CFC") rules.

Under certain circumstances, a U.S. person who owns 10% or more of the voting power of a foreign corporation that is a CFC (a foreign corporation in which 10% U.S. shareholders own more than 50% of the voting power of the foreign corporation or more than 25% of a foreign insurance company) for an uninterrupted period of 30 days or more during a taxable year must include in gross income for U.S. federal income tax purposes such "10% U.S. Shareholder's" pro rata share of the CFC's "subpart F income," even if the subpart F income is not distributed to such 10% U.S. Shareholder, if such 10% U.S. Shareholder owns (directly or indirectly through foreign entities) any shares of the foreign corporation on the last day of the corporation's taxable year. "Subpart F income" of a foreign insurance corporation typically includes foreign personal holding company income (such as interest, dividends and other types of passive income), as well as insurance and reinsurance income

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition, ordinary shareholders entitled to an exemption from Irish dividend withholding tax on dividends received from the Company should not be subject to Irish income tax in respect of those dividends, unless they have some connection with Ireland other than their ordinary shareholdings in the Company. Ordinary shareholders who receive dividends subject to Irish dividend withholding tax will generally have no further liability to Irish income tax on those dividends unless they have some connection with Ireland other than their ordinary shareholding in the Company.

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

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

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

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

The Acquisition is subject to the satisfaction or waiver of a number of conditions, on or before October 9, 2015 or such later date as the Company and Catlin may (with the consent of the Bermuda Supreme Court, if required) agree.

These (and any other) conditions may not be satisfied (or waived, if applicable). Failure to satisfy any of these conditions may result in the Acquisition not being completed, which would mean that costs relating to the negotiation, preparation and implementation of the Acquisition will have been incurred by the Company with none of the potential benefits of the Acquisition having been achieved. It would also mean that management's time spent in connection with the Acquisition, which could have otherwise been spent in connection with other aspects of the Company's business, will not have been spent productively.

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

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

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

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

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

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

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

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

Depending on the legal method for implementing the Acquisition, the Company may experience a delay in acquiring or may not be able to acquire the entire issued share capital of Catlin, which would mean that there would be minority shareholders in Catlin.

If the Company elects to implement the Acquisition by way of a takeover offer, rather than the Scheme, it will be able to determine the level, at a percentage of Catlin Shares carrying in aggregate between 75% and 90% of voting rights normally exercisable at a general meeting of Catlin, at which the acceptance condition for the offer will be set. If the Company sets the acceptance level at (or reduces the level of the acceptance condition during the takeover process to) Catlin Shares carrying less than 90% of voting rights normally exercisable at a general meeting of Catlin subject to the offer, it is possible that the acceptance condition will be satisfied (so that the Company cannot invoke the condition related thereto and withdraw its offer), but that an insufficient number of Catlin shareholders will accept the offer to allow the Company to compulsorily acquire the shares of those Catlin shareholders who have not accepted the offer. In such circumstances, minority shareholders would retain a stake in Catlin and would benefit from certain legal protections afforded to them under Bermuda law unless and until the Company was able to acquire the remaining outstanding Catlin Shares. The Company may be unable to realize all of the benefits that it might otherwise obtain from a successful completion of the Acquisition if there are minority shareholders in Catlin after completion of the Acquisition.

Even if a material adverse change to Catlin's business were to occur, it is highly unlikely that the Company would be able to invoke the conditions to the Acquisition and terminate the Acquisition, which could reduce the value of the Company's shares.

The Acquisition is subject to certain conditions, including the condition that there have not been material adverse changes in the business, assets, liabilities, financial or trading position, profits or operational performance or prospects of any member of Catlin's consolidated group. The Company may invoke this "material adverse change" condition to the Acquisition to cause it not to proceed only if a committee of an equal number of representatives of the Company and Catlin, as designated under the implementation agreement governing the Acquisition (the "Code Committee"), or an independent expert on the U.K. City Code on Mergers and Acquisitions designated by the Company and Catlin pursuant to the Implementation Agreement (the "Code Expert") (as the case may be) is satisfied that the circumstances giving rise to that condition not being satisfied are of material significance to the Company in the context of the Acquisition. In making this determination, the Code Committee or the Code Expert (as the case may be) will require there to be an adverse change of very considerable significance striking at the heart of the purpose of the transaction. In practice, it is highly unlikely that the Company would be able to invoke the material adverse change condition. As a result, the conditions may provide the Company less protection than the customary conditions in an offer for a U.S. domestic company. If a material adverse change affecting Catlin were to occur and the Code Committee or the Code Expert (as the case may be) did not allow the Company to invoke a condition that would cause the Acquisition not to proceed, the market price of the Company' shares could decline or the Company's business, financial condition and results of operations could be materially adversely affected.

The value of the XL-Ireland ordinary shares to be issued to Catlin's shareholders in the Acquisition will vary as a result of the fixed exchange ratio and possible fluctuations in the price of Company shares.

Upon consummation of the Acquisition, each Catlin Share (other than Catlin Shares already legally or beneficially held by the Company or any of its subsidiary undertakings, any treasury shares and any Catlin Shares legally or beneficially held by any of Catlin's subsidiary undertakings) will be exchanged for 388 pence in cash and 0.130 new XL-Ireland ordinary shares. Because the exchange ratio is fixed at 0.130 new XL-Ireland ordinary shares for each Catlin Share, the market value of the new Company shares issued in exchange for Catlin Shares will depend upon the market price of a XL-Ireland ordinary share at the date the Acquisition is consummated. If the price of XL-Ireland ordinary shares declines, Catlin shareholders could receive less value for their shares upon the consummation of the Acquisition than the value calculated pursuant to the exchange ratio on the date the Acquisition was announced or as of the date of publication of the Acquisition Prospectus. Share price changes may result from a variety of factors that are beyond the companies' control, including general market conditions, changes in business prospects, catastrophic events, both natural and man-made, and regulatory considerations.

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

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

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

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

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

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

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

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

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

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

Each of the Company and Catlin will be exposed to underwriting and other business risks during the period that each party’s business continues to be operated independently from the other.

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS

We are subject to litigation and arbitration in the normal course of our business. These lawsuits and arbitrations principally involve claims on policies of insurance and contracts of reinsurance and are typical for us and for the property and casualty insurance and reinsurance industry in general. Such claims proceedings are considered in connection with our loss and loss expense reserves. Reserves in varying amounts may or may not be established in respect of particular claims proceedings based on many factors, including the legal merits thereof. In addition to litigation relating to insurance and reinsurance claims, we are subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on insurance or reinsurance policies. These types of actions typically involve, among other things, allegations of underwriting errors or misconduct, employment disputes, actions brought by or on behalf of shareholders or disputes arising from business ventures. The status of these legal actions is actively monitored by management.

Legal actions are subject to inherent uncertainties, and future events could change management's assessment of the probability or estimated amount of potential losses from pending or threatened legal actions. If management believes that, based on available information, it is at least reasonably possible that a material loss (or additional material loss in excess of any accrual) will be incurred in connection with any legal actions, we disclose an estimate of the possible loss or range of loss, either individually or in the aggregate, as appropriate, if such an estimate can be made, or disclose that an estimate cannot be made. Based on our assessment at December 31, 2014, no such disclosures are considered necessary.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Executive Officers of the Registrant

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

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

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

Susan L. Cross was appointed to the Company's leadership team in August 2008, serving as Executive Vice President and Global Chief Actuary. Ms. Cross has served as Global Chief Actuary since 2006 and previously was Chief Actuary of the Company's reinsurance operations from 2004 to 2006 and Chief Actuary of XL Re Bermuda from 2002 to 2004. She also held various actuarial positions in the insurance and reinsurance operations of the Company from 1999 to 2002. Prior to joining the Company, Ms. Cross was Principal and Consulting Actuary at Tillinghast Towers Perrin.

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

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

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

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

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

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

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

Non-Employee Directors of the Registrant

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

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

Dale Comey has been a director since November 2001. Previously, Mr. Comey was Executive Vice President of ITT Corporation, where he was responsible for directing the operations of several business units, including ITT Hartford and ITT Financial Corporation.

Edward J. "Ned" Kelly, III has been a director since August 2014. Previously Mr. Kelly was Chairman of the board of Citigroup Inc. Institutional Clients Group, Citi's Chief Financial Officer, General Counsel and Secretary of JP Morgan & Co. Incorporated and Managing Director of the Carlyle Group.

Suzanne B. Labarge has been a director since October 2011. Previously, Ms. Labarge served as the Vice Chairman and Chief Risk Officer of Royal Bank of Canada (RBC Financial Group), a diversified financial services company.

Joseph Mauriello has been a director since January 2006. Previously, Mr. Mauriello was the Deputy Chairman, Chief Operating Officer and a director of KPMG LLP (United States) and KPMG Americas Region, a leading provider of audit, tax and advisory services.

Eugene M. McQuade has been a director since July 2004. Mr. McQuade currently serves as the CEO and a director of Citibank, N.A., the commercial banking arm of Citigroup, and is a member of Citigroup’s Operating Committee.

Clayton S. Rose has been a director since December 2009. Dr. Rose is presently a Professor of Management Practice at the Harvard Business School.

Anne Stevens has been a director since April 2014. Ms. Stevens currently serves as Chairman of the board, Chief Executive Officer and Principal of SA IT Services. Previously, Ms. Stevens was Chief Operations Officer for the Americas at the Ford Motor Company, and more recently was Chairman of the board, Chief Executive Officer and President of Carpenter Technology Corp.

Sir John M. Vereker has been a director since November 2007. Previously, Sir John Vereker was the Governor and Commander-in-Chief of Bermuda.

PART II

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

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

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

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

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

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

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

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

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

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

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

Purchases of Equity Securities by the Issuer and Affiliate Purchasers

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

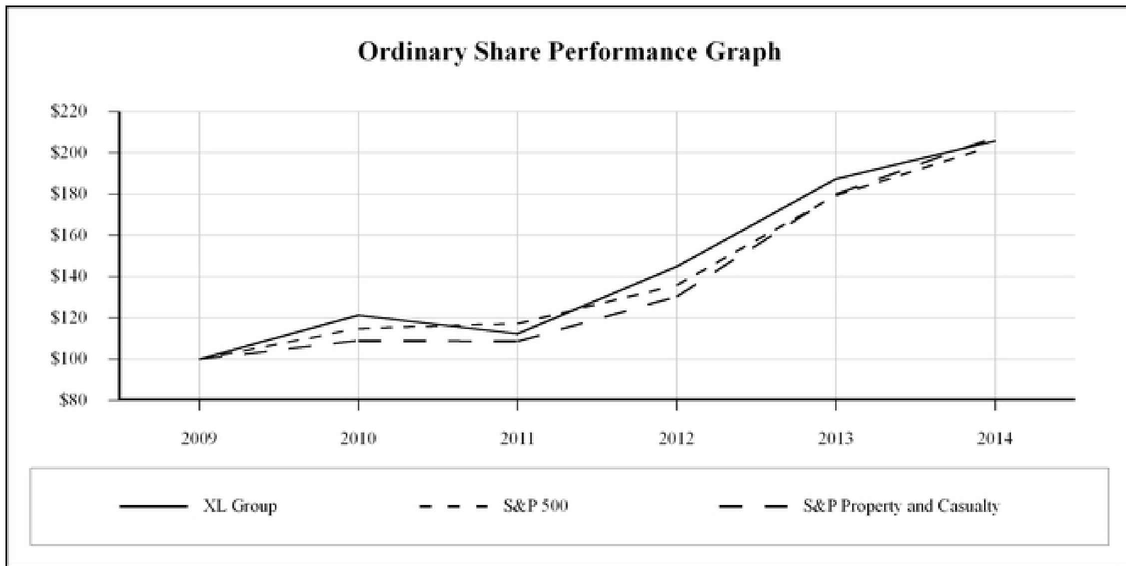
	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Value of Shares that May Yet Be Purchased Under the Publicly Announced Plans or Programs (1) (2)
October 1, 2014 to October 31, 2014	2,292,148	$ 32.77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

____
(1) Shares purchased in connection with the vesting of restricted shares granted under our equity compensation programs do not represent shares purchased as part of publicly announced plans or programs. All such purchases were made in connection with satisfying tax withholding obligations of those employees. These shares were not purchased as part of our share buyback program noted below.
(2) For information regarding our share buyback activity, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Other Key Focuses of Management - Buybacks of Ordinary Shares" included herein.

Ordinary Share Performance Graph

Set forth below is a line graph comparing the yearly dollar change in the cumulative total shareholder return over a five-year period on our ordinary shares from December 31, 2009 through December 31, 2014 to the cumulative total return of the Standard & Poor's 500 Stock Index and the cumulative total return of the Standard & Poor's Property & Casualty Insurance Index. The companies included in these indices or noted as competitors under Item 1, “Business,” may not be included in our compensation peer group.

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



ITEM 6. SELECTED FINANCIAL DATA

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

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

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

____

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

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

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

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

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

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

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

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

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

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

Index

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

Cautionary Note Regarding Forward-Looking Statements

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

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

- changes in the size of our claims relating to natural or man-made catastrophe losses due to the preliminary nature of some reports and estimates of loss and damage to date;
- trends in rates for property and casualty insurance and reinsurance;
- the timely and full recoverability of reinsurance placed by us or Catlin, if the Acquisition of Catlin is completed, with third parties, or other amounts due to us or Catlin;
- changes in the projected amount of ceded reinsurance recoverables and the credit ratings and creditworthiness of reinsurers;
- actual loss experience from insured or reinsured events and the timing of claims payments being faster or the receipt of reinsurance recoverables being slower than we anticipated;
- increased competition on the basis of pricing, capacity, coverage terms or other factors, such as the increased inflow of third-party capital into reinsurance markets, which could harm our ability, including Catlin, if the Acquisition is completed, to maintain or increase our business volumes or profitability;
- greater frequency or severity of claims and loss activity than anticipated, based on historical experience or industry data, by the underwriting, reserving or investment practices that we use or that Catlin uses, if the Acquisition is completed;
- changes in the global financial markets, including the effects of inflation on our business, including Catlin's business if the Acquisition is completed, including on pricing and reserving, increased government involvement or intervention in the financial services industry, and changes in interest rates, credit spreads, foreign currency exchange rates and future volatility in the world's credit, financial and capital markets that adversely affect the performance and valuation of either our or Catlin's investments, financing plans and access to such markets or general financial condition;
- our and Catlin's ability to successfully implement our respective business strategies, and if the Acquisition is completed, our ability to implement Catlin's business strategies;
- our ability to successfully attract and raise additional third party capital for existing or new investment vehicles;
- the potential impact on us, including Catlin if the Acquisition is completed, from government-mandated insurance coverage for acts of terrorism;
- changes in credit ratings or rating agency policies or practices;
- the potential for changes to methodologies, estimations and assumptions that underlie the valuation of our financial instruments, including those of Catlin if the Acquisition is completed, that could result in changes to investment valuations;
- changes to our assessment as to whether it is more likely than not that we will be required to sell, or have the intent to sell, available for sale fixed maturity securities before their anticipated recovery, including fixed maturity securities of Catlin;
- the availability of borrowings and letters of credit under our, or, if the Acquisition is completed, Catlin's, credit facilities;
- the ability of our, or, if the Acquisition is completed, Catlin's, respective subsidiaries to pay dividends to XL Group and XL-Cayman or Catlin, respectively;
- the potential effect of legislative or regulatory developments in the jurisdictions in which we operate, including, if the Acquisition is completed, the jurisdictions in which Catlin operates, such as those that could impact the financial markets or increase our business costs and required capital levels, including but not limited to changes in regulatory capital balances that must be maintained by our operating subsidiaries and governmental actions for the purpose of stabilizing the financial markets;
- the effects of business disruption, economic contraction or economic sanctions due to global political and social conditions such as war, terrorism or other hostilities, or pandemics;
- changes in regulations or laws applicable to us and our subsidiaries and, if the Acquisition is completed, Catlin and its subsidiaries, brokers or customers;

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

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

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

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

Executive Overview

Background

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

Underwriting Environment and Outlook for 2015

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

The current soft market conditions and low interest rate environment continue to impact the P&C insurance and reinsurance markets with (re)insurance companies looking for ways to lower their cost of capital and improve the returns on their assets. As a result, they are being forced to re-evaluate their current approach to capital management and are looking toward alternative and secondary markets for enhanced returns, lower expenses and a lower cost of capital. Specifically, insurers find themselves in a market in which they need to have greater scale and diversification as a means to stay relevant in meeting the evolving demands of insureds and at the same time maintain profitability. The reinsurance market continues to see a meaningful influx of third party capital from new and existing market participants in the property catastrophe space, which is expected to continue and potentially expand into other lines of business. With this additional capital, the traditional catastrophe market saw many changes including sizable increases in the overall global limits being provided, multi-year terms, and new aggregate structures as well as a meaningful increase in the number of alternative types of structures being provided such as catastrophe bonds. The market saw excess capacity as supply from both traditional markets and third party capital continued to outpace reinsurance demand. The combination of increased capacity and lower catastrophe losses resulted in pricing reductions, enhanced commissions and expanded coverage at attractive terms for insurers across most lines of business. The market also saw insurers combining separate regional programs or specialty and casualty sub lines into single global multi-line programs to get even further pricing improvements and expansion of terms and conditions. In addition, with the strengthened balance sheets of insurers and their push for expense savings to improve their bottom line, the reinsurance market saw increased retentions by insurers and a focus on maximizing their spend on reinsurance with a highly selective panel of reinsurers, particularly in the case of some larger insureds.

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

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

Insurance

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

Growth was strong in our NAPC and Specialty business groups and concentrated in attractive lines of business. Our construction and primary casualty businesses contributed to growth in North America. New teams in both our marine and crisis management businesses contributed to the strong new business growth in Specialty. Global Professional was up mid-single

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

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

Reinsurance

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

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

Investment Environment

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

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

Sale of Life Reinsurance Subsidiary

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

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

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

Subsequent Events

Catlin Acquisition

On January 9, 2015, we entered into the Implementation Agreement with Catlin and Green Holdings, a direct, wholly-owned subsidiary of XL-Ireland, pursuant to the Acquisition for cash and newly-issued ordinary shares of XL-Ireland. Under the terms of the Acquisition, Catlin shareholders will be entitled to receive 388 pence in cash and 0.130 ordinary shares of XL-

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

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

Sale of Strategic Operating Affiliate

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

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

Results of Operations and Key Financial Measures

Results of Operations

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

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

Key Financial Measures

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

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

____
(1) Net investment income - P&C operations includes: Net investment income - excluding Life Funds Withheld Assets and net investment income related to the net results from structured products.
(2) Represents a non-GAAP financial measure as discussed further below.
* N/M - Not Meaningful

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

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

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

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

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

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

Combined ratio – P&C operations

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

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

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

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

Net investment income - P&C Operations

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

Operating net income and Operating net income per share

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

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

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

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

Return on average ordinary shareholders’ equity (“ROE”)

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

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

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

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

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

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

Operating return on average ordinary shareholders’ equity (“Operating ROE”)

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

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

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

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

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

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

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

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

dividing non-GAAP operating net income for any period by the average of the opening and closing ordinary shareholders' equity excluding unrealized gains and losses on investments. A reconciliation of the opening and closing ordinary shareholders' equity to the opening and closing ordinary shareholders' equity excluding unrealized gains and losses on investments is provided under "Reconciliation of Non-GAAP Measures" below.

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

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

2014 vs. 2013: The increase in our Operating ROE ex-UGL was the result of the higher operating net income in 2014 due to the factors discussed above as part of Operating ROE.

2013 vs. 2012: The increase in our Operating ROE ex-UGL was the result of the higher operating net income in 2013 due to the factors discussed above as part of ROE.

Book value per ordinary share

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

The following table presents our book value per ordinary share for the indicated years ended December 31:

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

2014 vs. 2013: The increase in our book value per ordinary share was primarily due to increases in net unrealized gains on investments and underwriting income generated by our P&C operations, combined with the benefit of share buyback activity, partially offset by the after-tax net loss on the sale of our life reinsurance subsidiary and payment of dividends. Further detail regarding the impact of the life reinsurance transaction is included at "Significant Items Affecting Results of Operations" below, and at Item 8, Note 3, “Sale of Life Reinsurance Subsidiary,” to the Consolidated Financial Statements included herein.

2013 vs. 2012: The increase in our book value per ordinary share was primarily due to the increase in net income attributable to ordinary shareholders and the benefit of share buyback activity partially offset by a decrease in net unrealized gains on investments.

Fully diluted tangible book value per ordinary share

Fully diluted tangible book value per ordinary share is a non-GAAP financial measure and is calculated by dividing ordinary shareholders' equity excluding intangible assets (as disclosed on the face of the balance sheets) by the number of outstanding ordinary shares at the applicable period end combined with the impact from dilution of share-based compensation and certain conversion features where dilutive.

The following table presents our fully diluted tangible book value per ordinary share for the indicated years ended December 31:

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

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

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

Reconciliation of Non-GAAP Measures

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

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

____

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

Significant Items Affecting the Results of Operations

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

1) Sale of life reinsurance subsidiary;

2) The impact of significant large loss events;

3) Continuing competitive factors impacting the underwriting environment;

4) Net favorable prior year loss development; and

5) Market movement impacts on our investment portfolio.

1) Sale of Life Reinsurance Subsidiary

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

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

All of the reclassified securities are included within Life Funds Withheld Assets, along with certain other available for sale securities as defined in the sale and purchase agreement. The Life Funds Withheld Assets are managed pursuant to agreed investment guidelines that meet the contractual commitments of the XL ceding companies and applicable laws and regulations. All of the investment results associated with the Life Funds Withheld Assets ultimately accrue to GCLR. Because we no longer share in the risks and rewards of the underlying performance of the supporting invested assets, disclosures within the financial statement notes included herein separately report the Life Funds Withheld Assets from the rest of the Company's investments.

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

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

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

2) The impact of significant large loss events

Natural Catastrophe Losses

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

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

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

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

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

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

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

Other Large Loss Events

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

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

3) Continuing competitive factors impacting the underwriting environment

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

4) Net favorable prior year loss development

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

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

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

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

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

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

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

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

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

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

Other Key Focuses of Management

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

Catlin Acquisition

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

The strategic rationale for the Acquisition is as follows:

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

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

Capital Management

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

Buybacks of Ordinary Shares

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

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

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

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

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

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

Repayment of the 5.25% Senior Notes due September 2014

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

Sale of 2.30% Senior Notes due 2018 and Sale of 5.25% Senior Notes due 2043

On November 21, 2013, XL-Cayman completed the public sale of $300 million aggregate principal amount of 2.30% Senior Notes due 2018 (the "2.30% Senior Notes") and the sale of $300 million aggregate principal amount of 5.25% Senior Notes due 2043 (the "5.25% Senior Notes," and, together with the 2.30% Senior Notes, the "Senior Notes") at the issue price of 99.69% and 99.770% of the principal amount, respectively. The Senior Notes are fully and unconditionally guaranteed by XL-Ireland. The 2.30% Senior Notes bear interest at a rate of 2.30%, payable semi-annually, beginning on June 15, 2014, and mature on December 15, 2018. The 5.25% Senior Notes bear interest at a rate of 5.25%, per annum, payable semi-annually, beginning on June 15, 2014, and mature on December 15, 2043. XL-Cayman may redeem the Senior Notes, in whole or part, from time to time in accordance with the terms of the indenture pursuant to which the Senior Notes were issued. XL-Cayman received aggregate net proceeds of approximately $592.6 million from the offering, which was used for the repayment at maturity of the outstanding $600 million principal amount of our 5.25% Senior Notes due September 2014.

Repayment of the 6.5% Guaranteed Senior Notes due January 2012 (the "XLCFE Notes")

On January 15, 2012, the $600 million principal amount outstanding on the XLCFE Notes, which were issued by XL Capital Finance (Europe) plc, was repaid at maturity. For further detail, see Item 8, Note 15, "Notes Payable and Debt Financing Arrangements," to the Consolidated Financial Statements included herein.

Capital Management - Catlin Acquisition

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

Risk Management

Our risk management and risk appetite framework is detailed in Item 1, "Business – Enterprise Risk Management," included herein. The table below shows our estimated per event net 1% and 0.4% exceedance probability exposures for certain peak natural catastrophe peril regions. These estimates assume that amounts due from reinsurance and retrocession purchases are 100% collectible. There may be credit or other disputes associated with these potential receivables.

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

____

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

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

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

Regulatory Change

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

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

Critical Accounting Policies and Estimates

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

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

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

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

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

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

Case Reserves

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

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

Since we rely on information regarding paid losses, case reserves and IBNR provided by ceding companies in order to assist us in estimating our liability for unpaid losses and loss adjustment expenses ("LAE"), we maintain certain procedures in order to help determine the completeness and accuracy of such information. Periodically, management assesses the reporting activities of our ceding companies on the basis of qualitative and quantitative criteria. In addition to conferring with ceding companies or brokers on claims matters, our claims personnel conduct periodic audits of specific claims and the overall claims procedures of our ceding companies at their offices. We rely on our ability to effectively monitor the claims handling and claims reserving practices of ceding companies in order to help establish the proper reinsurance premium for reinsurance agreements and to establish proper loss reserves. Disputes with ceding companies have been rare and generally have been resolved through negotiation.

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

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

IBNR Reserves

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

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

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

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

Generally, initial actuarial estimates of IBNR reserves not related to a specific event are based on the loss ratio method applied to each class of business. Actual paid losses and case reserves (“reported losses”) are subtracted from expected ultimate losses to determine IBNR reserves. Estimates of the initial expected ultimate losses involve management judgment and are based on historical information for that class of business, which includes loss ratios, market conditions, changes in pricing and conditions, underwriting changes, changes in claims emergence, and other factors that may influence expected ultimate losses.

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

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

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

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

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

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

a) high layer excess casualty insurance;

b) casualty reinsurance; and

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

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

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

Reinsurance operations by their nature add further complications to the reserving process, particularly for the casualty business written, in that there is an inherent lag in the timing and reporting of a loss event from an insured or ceding company to the reinsurer. This reporting lag creates an even longer period of time between the policy inception and when a claim is finally settled. As a result, more judgment is required to establish reserves for ultimate claims in our reinsurance operations.

In our reinsurance operations, case reserves for reported claims are generally established based on reports received from ceding companies. Additional case reserves may be established by us to reflect our estimated ultimate cost of a loss.

Casualty reinsurance business involves reserving methods that generally include historical aggregated claim information as reported by ceding companies, combined with the results of claims and underwriting reviews of a sample of the ceding company's claims and underwriting files. Therefore, we do not always receive detailed claim information for this line of business.

Discontinued asbestos and run-off environmental liabilities are attached to certain policies previously written by NAC Re Corp. (now known as XL Reinsurance America Inc.), prior to its acquisition by us; from business of Winterthur purchased by us from AXA Insurance in 2001; and from a loss portfolio transfer in 2006. At December 31, 2014, total gross unpaid losses and loss expenses in respect of this business represented less than 1% of unpaid losses and loss expenses of the Company. See Note 11(c), "Losses and Loss Expenses – Discontinued Asbestos and Run-Off Environmental Related Claims," to the Consolidated Financial Statements included herein for further information.

Except for certain workers' compensation (including long term disability) liabilities and certain bodily injury liability claims emanating from U.K. exposures, predominantly from the U.K. motor liability portfolio, we do not discount our unpaid losses and loss expenses. We utilize tabular reserving for workers' compensation unpaid losses that are considered fixed and determinable. The unpaid losses for the annuity component of U.K. motor claims are discounted to reflect the long tail nature of the structured settlements. For further discussion, see Item 8, Note 11, "Losses and Loss Expenses," to the Consolidated Financial Statements included herein.

Loss and loss expenses are charged to income as they are incurred. These charges include loss and loss expense payments and any changes in case and IBNR reserves. During the loss settlement period, additional facts regarding claims are reported. As these additional facts are reported, it may be necessary to increase or decrease the unpaid losses and loss expense reserves. The actual final liability may be significantly different than prior estimates.

The amount of our net unpaid losses and loss expenses relating to our operating segments at December 31, 2014 and 2013 was as follows.

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

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

____

(1) Other within the Insurance segment includes: excess and surplus, programs, surety, structured indemnity and certain discontinued lines. Other within the Reinsurance segment includes: whole account contracts, surety, structured indemnity and other lines.
(2) Within the Reinsurance segment, casualty-other and casualty-professional lines of business are shown in the aggregate.
(3) Property catastrophe IBNR includes event specific reserves for losses that our insureds and cedants have informed us they expect to incur but have not yet had reported known claims.

As noted above, management reviews the IBNR estimates produced by our actuaries and determines its best estimate of the liabilities to record in our financial statements. We consider this single point estimate to be the mean expected outcome. Management believes that the actuarial methods utilized adequately provide for loss development.

While the proportion of unpaid losses and loss expenses represented by IBNR is sensitive to a number of factors, the most significant ones have historically been accelerated business growth and changes in business mix. Other factors that have affected the ratio in the past include additions to prior period reserves, catastrophic occurrences, settlement of large claims and changes in claims settlement patterns. The ratio of IBNR to total reserves was consistent from year-end 2013 to year-end 2014.

IBNR reserves are estimated by our actuaries using standard actuarial methodologies as discussed above. Since the year ended December 31, 2003, we adopted a methodology that provides a single point reserve estimate separately for each line of business and also a range of possible outcomes across each single point reserve estimate. This is discussed further below.

The following table shows the recorded estimate and the high and low ends of the range of our net unpaid losses and loss expenses for each of the lines of business noted above at December 31, 2014:

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

____

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

(2) The range for the total Insurance and Reinsurance segment reserves is narrower than the sum of the ranges for the lines of business shown in the table due to diversification benefits across the lines of business.

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

(4) The method of converting reserve ranges from an ultimate to a one-year time horizon has changed for 2014. The new method is based on expectations of future claims reporting and settlement, rather than the average time of payment for outstanding reserves.

There are factors that would cause reserves to increase or decrease within the context of the range provided. The magnitude of any change in ultimate losses would be determined by the magnitude of any changes to our assumptions or combined impact of changes in assumptions. Factors that would increase reserves include, but are not limited to, increases in claim severity, increases in expected level of reported claims, changes to the regulatory environment that expand the exposure insured by us, changes in the litigation environment that increase claim awards, filings or verdicts, unexpected increases in loss inflation, and/or new types of claims being pursued against us. Factors that would decrease reserves include, but are not limited to, decreases in claim severity, reductions in the expected level of reported claims, changes to the regulatory environment that reduce the exposure insured by us, changes in the litigation environment that decrease claim awards, filings or verdicts, and/or unexpected decreases in loss inflation.

Our methodology in 2014 for calculating reserve ranges around our single point reserve estimate is consistent with that used in 2013. We modeled a statistical distribution of potential reserve outcomes over a one year run-off period for each of the approximately 32 lines of business. Where appropriate, lines of business were evaluated at a more granular level and then aggregated to appropriately reflect differing levels of volatility within each line of business, for example, in respect of attritional, large, catastrophe and clash losses. In doing so we evaluated a number of alternative models, and for each line of business our actuaries selected the distribution parameters deemed to be most appropriate. Factors affecting this decision included an assessment of the model fit, availability and relevance of data and the impact of changes in business mix. We used the modeled statistical distribution to calculate an 80% prediction interval for the potential reserve outcomes over this one year

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

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

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

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

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

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

Unpaid losses and loss expenses recoverable

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

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

2) Future Policy Benefit Reserves

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

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

$0.4 billion, after consideration of our future policy benefit reserves recoverable from GCLR of $4.3 billion. See Item 8, Note 3, "Sale of Life Reinsurance Subsidiary," to the Consolidated Financial Statements included herein, for further information.

We provide reinsurance of disability income protection, for an in-force block of business. The future policy benefit reserves for these contracts amounted to approximately $108 million and $104 million at December 31, 2014 and 2013, respectively. Future policy benefit reserves include the lock-in of assumptions at inception with periodic review against experience. The liabilities relate to in-force blocks of business, comprising underlying insurance policies that provide an income if the policyholder becomes sick or disabled. The liabilities are therefore driven mainly by the rates at which policyholders become sick (where sickness is defined by the policy conditions) and by the rates at which these policyholders recover or die. A 1% increase in the incidence rate would increase the value of future claims by approximately $1.2 million, while a 1% decrease in the termination rate would increase the value of future claims by approximately $1.4 million. Although reserve assumptions related to this business have been unlocked in the past, no changes to the revised locked-in assumptions were made in the years ended 2014, 2013, and 2012.

We also provide reinsurance of a block of U.S. based term assurance, which was novated to us from an insurance affiliate in December 2002. The future policy benefit reserves for these contracts amounted to approximately $263 million and $268 million at December 31, 2014 and 2013, respectively. Future policy benefit reserves are established in accordance with the provisions of general authoritative guidance on accounting for insurance enterprises, including the lock-in of assumptions at inception with periodic review against experience.

The liabilities relate to in-force blocks of business, which are comprised of underlying insurance policies that provide mainly lump sum benefits if the policyholder dies. The liabilities are therefore driven by the rates of mortality, and a 1% increase in the mortality rate relative to the reserving assumption would increase the value of future claims by approximately $6.8 million. The liabilities are also affected by lapse experience, and a 1% decrease in lapse rates relative to the reserving assumption would increase the reserve by approximately $1.1 million. No changes were made to the locked-in assumptions in 2014. Following a review of mortality and lapse experience in 2013, the revised locked-in assumptions were unlocked and revised, resulting in an increase in the reserve of $14.0 million.

For further information see Item 8, Note 13, “Future Policy Benefit Reserves,” to the Consolidated Financial Statements included herein.

3) Other-Than-Temporary Declines in Investments (“OTTI”)

Our process for identifying declines in the fair value of investments that are other-than-temporary involves consideration of several factors. The primary factors include (i) an analysis of the liquidity, business prospects and financial condition of the issuer including consideration of credit ratings, (ii) the significance of the decline, (iii) an analysis of the collateral structure and other credit support, as applicable, of the securities in question, and (iv) for debt securities, whether we intend to sell such securities. In addition, the authoritative guidance requires that OTTI for certain asset backed and mortgage backed securities are recognized if the fair value of the security is less than its discounted cash flow value and there has been a decrease in the present value of the expected cash flows since the last reporting period. Where our analysis of the above factors results in our conclusion that declines in fair values are other-than-temporary, the cost of the security is written down to discounted cash flow and a portion of the previously unrealized loss is therefore realized in the period such determination is made.

If we intend to sell an impaired debt security, or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis, the impairment is other-than-temporary and is recognized in earnings in an amount equal to the entire difference between fair value and amortized cost.

There are risks and uncertainties associated with determining whether declines in the fair value of investments are other-than-temporary. These include subsequent changes in general economic conditions as well as specific business conditions affecting particular issuers, our liability profile, subjective assessment of issue-specific factors (seniority of claims, collateral value, etc.), future financial market effects, stability of foreign governments and economies, future rating agency actions and significant disclosure of accounting, fraud or corporate governance issues that may adversely affect certain investments. In addition, significant assumptions and management judgment are involved in determining if the decline is other-than-temporary. If management determines that a decline in fair value is temporary, then a security’s value is not written down at that time. However, there are potential effects upon our future earnings and financial position should management later conclude that some of the current declines in the fair value of the investments are other-than-temporary declines. See “Investment Activities” herein for further information on other-than-temporary declines in the value of investments and unrealized loss on investments.

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

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

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

Credit loss methodology – structured securities

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

Credit loss analysis – corporate sector securities

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

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

Credit loss analysis – government sector securities

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

Credit loss analysis – equities

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

4) Income Taxes

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

We had net operating tax loss carry forward balances of $49.8 million (net of a $15.0 million uncertain tax position) and $89.2 million and held a valuation allowance of $43.8 million and $44.7 million at December 31, 2014 and 2013, respectively. We had realized capital loss carry forward balances of approximately $97.2 million and $141.0 million at December 31, 2014 and 2013, respectively. We held a valuation allowance of $97.2 million and $141.0 million at December 31, 2014 and 2013, respectively. In addition, we had capital losses arising from the sale of investments to an affiliate of $57.4 million and $69.5 million at December 31, 2014 and 2013, respectively, and held a full valuation allowance against the associated tax of $57.4 million and $69.5 million, respectively.

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

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

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

5) Reinsurance Premium Estimates

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

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

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

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

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

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

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

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

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

____

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

6) Goodwill

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

The estimated fair values of the reporting units are generally determined utilizing methodologies that incorporate price-to-net-tangible-book and price-to-earnings multiples of certain comparable companies, from an operational and economic standpoint. If such estimated fair value, combined with an estimate of an appropriate control premium (i.e, the value an investor would pay above minority interest transaction prices in order to obtain a controlling interest in the respective company), indicates a "close call" or potential impairment, additional analysis using discounted cash flows is performed. The results of the various valuation methodologies utilized are then weighted to arrive at a selected estimated fair value for each reporting unit. If the estimated fair value exceeds the book value, goodwill at the reporting unit level is not deemed to be impaired. If the book value exceeds the estimated fair value, the second step of the process is performed to measure the amount of impairment.

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

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

Segments

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

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

Income Statement Analysis

Insurance

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

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

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

____
* N/M - Not Meaningful

Gross Premiums Written

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

				Percentage change	
(U.S. dollars in thousands)	2014	2013	2012	2014 to 2013	2013 to 2012
IPC	$ 1,410,272	$ 1,376,246	$ 1,294,817	2.5%	6.3%
NAPC	2,001,218	1,774,596	1,520,050	12.8%	16.7%
Professional	1,550,929	1,465,689	1,460,018	5.8%	0.4%
Specialty	1,013,592	906,650	892,088	11.8%	1.6%
Total	$ 5,976,011	$ 5,523,181	$ 5,166,973	8.2%	6.9%

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

- IPC - increase of 2.5% driven by increases in renewals and new business in International middle market, and new business in international schemes, property, and primary casualty, partially offset by decreases in property and Lloyd's middle market business lines due in part to a decline in rates.

- NAPC - increase of 12.8% largely attributable to an increase in new and renewal business in construction, surplus lines and programs business lines, as well as higher renewals in excess casualty, partially offset by pricing decreases in property and program business lines.

- Professional - increase of 5.8% mainly attributable to increases in renewals and new business in international professional due to new underwriting teams in place during the year, as well as increased renewals in select professional and U.S. professional business lines, partially offset by a decrease in rates primarily in U.S. and international professional lines.

- Specialty - increase of 11.8% due to new and renewal business in crisis management, marine, and equine business lines and new business in political risk.

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

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

- IPC - increase of 6.3% driven mainly by higher renewed premiums across most businesses and strong pricing, most notably in primary casualty and middle markets, as well as growth in new business in property, partially offset by lower levels of new business in primary casualty and middle markets.

- NAPC - increase of 16.7% largely driven by strong new business in construction, primary casualty and environmental as well as higher renewed premiums in property, primary and excess casualty, surplus lines and construction.

- Professional - increase of 0.4% driven primarily by increases in new business and renewed select business (which offers professional liability to small and mid-size niche professional groups in the United States) primarily in the errors and omissions, particularly in the technology industry, and programs lines of businesses; new business in Bermuda and strong pricing in the U.S., partially offset by international due to the non-renewal of a large program focused on legal professionals and lower new business.

- Specialty - increase of 1.6% due to new business in marine, and our crisis management and political risk business initiatives and improved renewed premiums in our fine art and specie and marine businesses, partially offset by lower renewed premiums and lower new business in aerospace.

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

Net Premiums Written

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

- A modification in the reinsurance structure in the latter half of 2013 to one that employs proportional reinsurance in the Professional business group, as well as higher utilization of this proportional reinsurance in our U.S. and select businesses in order to take advantage of favorable market terms;

- An increase in certain proportional reinsurance treaties cessions from higher NAPC construction writings; and

- Higher reinsurer participation on certain casualty treaties.

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

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

Net Premiums Earned

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

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

Net Losses and Loss Expenses

Combined Ratio

The following table presents the ratios for the Insurance segment:

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

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

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

Loss Ratio – excluding prior year development

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

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

Prior Year Development

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

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

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

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

Acquisition Costs and Operating Expenses

Underwriting Expense Ratio

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

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

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

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

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

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

Net Results – Structured Products

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

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

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

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

Fee Income and Other

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

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

Reinsurance

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

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

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

____
* N/M - Not Meaningful

Gross Premiums Written

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

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

____
(1) Other relates to discontinued structured indemnity.
* N/M - Not Meaningful

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

- Bermuda - increase of 3.3% due to new business and favorable renewals on whole account and property treaty businesses.
- North America - decrease of 13.6% largely due to unfavorable renewal activity within casualty treaty and property treaty business lines, partially offset by increased agricultural premiums within our property treaty business.

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

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

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

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

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

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

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

Net Premiums Written

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

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

Net Premiums Earned

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

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

Net Losses and Loss Expenses

Combined Ratio

The following table presents the ratios for the Reinsurance segment:

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

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

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

Loss Ratio – excluding prior year development

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

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

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

Prior Year Development

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

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

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

Acquisition Costs and Operating Expenses

Underwriting Expense Ratio

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

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

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

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

- Operating expense ratio - increased mainly due to higher compensation costs while net premiums earned decreased compared to 2012, and higher professional fees from the establishment of new business initiatives.

- Acquisition expense ratio - increased largely from an increase in profit based commissions on prior underwriting years in Bermuda on property treaty lines in the year ended December 31, 2013.

Net Results – Structured Products

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

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

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

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

Corporate and Other (Including Run-Off Life Operations)

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

Run-Off Life Operations

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

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

Impact of Life Retro Arrangements

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

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

____

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

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

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

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

Investment Performance (Excluding Life Funds Withheld Assets)

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

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

____

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

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

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

Investment Activities (Excluding Life Funds Withheld Assets)

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

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

____

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

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

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

* N/M - Not Meaningful

Net Investment Income

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

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

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

Net Income (Loss) from Investment Fund Affiliates

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

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

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

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

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

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

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

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

    - $12.5 million related to Other Investments.

- $11.0 million related to certain equities as the holdings were in a loss position for more than 11 months or impaired by more than 50%.

- $3.7 million related to change of intent to hold certain Corporate High Yield securities.

- $4.3 million for structured securities, principally non-Agency RMBS, where we determined that the likely recovery on these securities was below the carrying value and, accordingly, recorded an impairment of the securities to the discounted value of the cash flows expected to be received on these securities.

- $4.2 million related to foreign exchange losses.

For the year ended December 31, 2013, net realized gains on investments of $87.8 million included the following:

- Net realized gains of $104.1 million resulted from sales transactions primarily from a repositioning of the Agency RMBS portfolio and sales of equity and non-U.S. Sovereign Government securities.

- Realized losses of approximately $16.3 million related to the write-down of certain of the Company's AFS investments. The significant components of the net impairment charges were:

  - $7.7 million for structured securities, principally non-Agency RMBS, where we determined that the likely recovery on these securities was below the carrying value and, accordingly, recorded an impairment of the securities to the discounted value of the cash flows expected to be received on these securities.

  - $4.3 million related to medium term notes backed primarily by European investment grade credit. On certain notes, management concluded that expected future returns on the underlying assets were not sufficient to support the previously reported amortized cost. We also adjusted the estimated remaining holding period of certain notes resulting in a shorter reinvestment spectrum.

  - $4.3 million related to foreign exchange losses primarily arising on Swiss franc and U.K. sterling denominated securities held in U.S. dollar portfolios.

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

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

Other Revenues and Expenses

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

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

____

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

Net Income (Loss) from Operating Affiliates

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

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

____
* N/M - Not Meaningful

Net Income from Investment Manager Affiliates

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

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

Net Income from Strategic Operating Affiliates

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

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

Foreign Exchange Gains/Losses

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

Corporate Operating Expenses

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

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

Loss on Sale of Life Reinsurance Subsidiary

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

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

The Company has entered into Life Retro Arrangements as described in Item 8, Note 2, "Significant Accounting Policies - (c) Investments - Investments Related to Life Retrocession Arrangements written on a Funds Withheld Basis and (e) Reinsurance," and Note 3, "Sale of Life Reinsurance Subsidiary," to the Consolidated Financial Statements included herein. The embedded derivative is recorded at fair value with changes in fair value recognized in earnings through "Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets." For a further discussion, see Item 8, Note 16, “Derivative Instruments,” to the Consolidated Financial Statements included herein and "Impact of Life Retro Arrangements" above.

Interest Expense

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

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

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

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

Income Tax Expense

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

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

Balance Sheet Analysis

Investments (Excluding Life Funds Withheld Assets)

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

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

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

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

____

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

(2) Includes certain floating rate medium term notes supported primarily by pools of European investment grade credit with varying degrees of leverage. The notes have a carrying value of $79.9 million and $154.6 million and an amortized cost of $68.4 million and $147.7 million at December 31, 2014 and December 31, 2013, respectively. These securities have been allocated ratings of the underlying pool of securities. These notes allow the investor to participate in cash flows of the underlying bonds including certain residual values, which could serve to either decrease or increase the ultimate values of these notes.

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

Investments by Credit Rating (1)	2014			2013		
(U.S. dollars in millions)		Carrying Value (2)	Percent of Total		Carrying Value	Percent of Total
AAA	$	11,509	44.1%	$	12,957	40.6%
AA		5,334	20.4%		6,738	21.1%
A		6,158	23.6%		7,761	24.3%
BBB		2,321	8.9%		3,654	11.4%
BB and below		793	3.0%		792	2.5%
Not rated		15	—%		18	0.1%
Total	$	26,130	100.0%	$	31,920	100.0%

____

(1) The credit rating for each asset reflected above was principally determined based on the weighted average rating of the individual securities from Standard & Poor's, Moody's Investors Service and Fitch Ratings (when available). U.S. Agency debt and related mortgage-backed securities, whether with implicit or explicit government support, reflect the credit quality rating of the U.S. government for the purpose of these calculations.

(2) Excludes Life Funds Withheld Assets.

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

We had gross unrealized losses totaling $213.6 million on 1,631 securities out of a total of 7,669 held at December 31, 2014 in our AFS portfolio (excluding Life Funds Withheld Assets) that we consider to be temporarily impaired. Individual security positions comprising this balance have been evaluated by management, in conjunction with our investment managers, to determine the severity of these impairments and whether they should be considered other-than-temporary.

Gross unrealized losses can be attributed to the following significant drivers:

- gross unrealized losses of $67.0 million related to the P&C portfolio of Government and Government-Related holdings. Securities in a gross unrealized loss position had a fair value of $1.9 billion at December 31, 2014.

- gross unrealized losses of $42.2 million related to the Corporate holdings within our P&C investments portfolio. Securities in a gross unrealized loss position had a fair value of $1.6 billion at December 31, 2014. Of the gross unrealized losses, $10.1 million relate to financial institutions.

- gross unrealized losses of $18.2 million related to the P&C portfolio of Non-Agency RMBS portfolio (which consists of our holdings of sub-prime Non-Agency RMBS, second liens, asset backed securities collateralized debt obligations ("ABS CDOs") with sub-prime collateral, Alt-A and Prime RMBS). Securities in an unrealized loss position had a fair value of $252.2 million at December 31, 2014. The Company has incurred realized losses, consisting of charges for OTTI and realized losses from sales, of approximately $1.4 billion since the beginning of 2007 through December 31, 2014 on these asset classes.

The following table details the security type and length of time that AFS securities were in a continual gross unrealized loss position at December 31, 2014:

Security Type and Length of Time in a Continual Unrealized Loss Position (1)	December 31, 2014			
(U.S. dollars in thousands)		Amount of Unrealized Loss		Fair Value of Securities in an Unrealized Loss Position
Fixed Maturities and Short-Term Investments				
Less than 6 months	$	(41,402)	$	2,375,489
At least 6 months but less than 12 months		(20,370)		520,721
At least 12 months but less than 2 years		(45,712)		1,620,834
2 years and over		(79,862)		1,124,871
Total	$	(187,346)	$	5,641,915
Equities				
Less than 6 months	$	(9,650)	$	84,902
At least 6 months but less than 12 months		(16,580)		106,291
Total	$	(26,230)	$	191,193

____

(1) Excludes Life Funds Withheld Assets.

The following is the maturity profile of the AFS fixed income securities that were in a continual gross unrealized loss position at December 31, 2014:

Maturity profile in years of AFS fixed income securities in a gross unrealized loss position (1)	**December 31, 2014**	
(U.S. dollars in thousands)	**Amount of Unrealized Loss**	**Fair Value of Securities in an Unrealized Loss Position**
Less than 1 year remaining	$ (16,031)	$ 472,162
At least 1 year but less than 5 years remaining (2)	(64,848)	2,232,750
At least 5 years but less than 10 years remaining (2)	(28,120)	706,693
At least 10 years but less than 20 years remaining (2)	(6,220)	123,444
At least 20 years or more remaining (2)	(4,713)	99,273
RMBS – Agency	(10,783)	647,187
RMBS – Non-Agency	(18,155)	248,078
CMBS	(5,262)	247,421
CDO	(27,169)	664,319
Other asset-backed securities (2)	(6,045)	200,588
Total	$ (187,346)	$ 5,641,915

____

(1) Excludes Life Funds Withheld Assets.

(2) Includes medium term notes supported primarily by pools of European investment grade credit with varying degrees of leverage are allocated based on contractual maturity.

Factors considered in determining that additional OTTI charges were not warranted include management’s consideration of current and near term liquidity needs along with other available sources of liquidity, and in certain instances an evaluation of the factors and time necessary for recovery. For further information, see Item 8, Note 6, “Investments,” to the Consolidated Financial Statements included herein.

As noted in Item 8, Note 2, “Significant Accounting Policies,” to the Consolidated Financial Statements included herein, the determination of the amount of OTTI varies by investment type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. We consider a wide range of factors about the securities and use our best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for near-term recovery. Inherent in our evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. We update our evaluations regularly and reflect additional impairments in net income as determinations are made. Our determination of the amount of the impairment taken on investments is highly subjective and could adversely impact our results of operations. There can be no assurance that we have accurately assessed the level of OTTI taken and reflected in our financial statements. Furthermore, additional impairments may need to be taken in the future. Historical trends may not be indicative of future impairments.

Levels of write down or OTTI are also impacted by our assessment of the intent to sell securities that have declined in value prior to recovery. If, due to changes in circumstances, we determine to reposition or realign portions of the portfolio and we determine not to hold certain securities in an unrealized loss position to recovery, we will incur OTTI charges, which could be significant. In addition, in our assessment of whether securities in a gross unrealized loss position are temporarily impaired, we consider the significance of the impairments.

At December 31, 2014, we had corporate securities with gross unrealized losses of $42.2 million. These securities included gross unrealized losses of $2.2 million, which had a fair value of $1.8 million and a cumulative fair value decline of greater than 50% of amortized cost.

At December 31, 2014, we had structured securities with gross unrealized losses of $18.2 million on non-Agency RMBS, $27.2 million on Core CDOs and $5.3 million on CMBS holdings. These securities included gross unrealized losses of $9.6 million, which had a fair value of $5.5 million and a cumulative fair value decline of greater than 50% of amortized cost. All of these are mortgage and asset-backed securities. We have evaluated each of these securities in conjunction with our investment manager service providers and believe it is more likely than not that the issuer will be able to fund sufficient principal and interest payments to support the current amortized cost.

Refer to “Significant Items Affecting the Results of Operations” above for further discussion surrounding the impact of credit market movements on our investment portfolio.

European Sovereign Debt Crisis (Excluding Life Funds Withheld Assets)

As developed markets emerged from the global recession, several key nations within the European Union (the E.U.) - particularly Greece, Italy, Ireland, Portugal and Spain (the “European Periphery Nations") - have carried particularly high levels of debt and have been slower to return to positive economic growth due to austerity measures implemented to lower such countries' debt levels, and a general lack of competitiveness. The European Central Bank has taken various measures and has asserted its willingness to take any measures deemed necessary to protect these sovereigns' ability to continue to fund their debt. As a result, we believe market risks associated with the European Sovereign Debt crisis have been greatly reduced.

Our exposure to this European sovereign debt crisis is from direct investment in fixed maturity securities issued by national and local governments of the European Periphery Nations, as well as from fixed maturity securities issued by certain financial and non-financial corporate entities operating within the European Periphery Nations which currently have a fair value of $144.5 million at December 31, 2014. We continue to monitor our financial exposure to this crisis, and continually assess the impact of a potential default by any of the European Periphery Nations on their respective debt issuances, including the associated impact on non-sovereign entities in these five nations in the event of such a default.

We currently have no unfunded investment exposures or commitments to either sovereign or non-sovereign entities within the European Periphery Nations. We do invest in various alternative and private investment funds and medium term notes that from time to time may invest in securities or investments related to the European Periphery Nations. In general, such funds and medium term notes will invest in debt and/or equity securities of individual corporate issuers, securitized debt instruments and/or fixed maturity instruments issued by national governments of the European Periphery Nations. As market volatility in the European Periphery Nations has declined, we have observed that our alternative and private fund managers have increased their exposure to these countries. We estimate that, as of December 31, 2014, our aggregate exposure to European Periphery Nations via our fund investments and medium term notes did not exceed $150 million on a net basis. The exposure was diversified across issues and instruments and across the five European Periphery Nations.

In addition to the direct investment portfolio considerations discussed above, as an international (re)insurance company, European credit exposures may exist for us within unpaid losses and loss expenses recoverable and reinsurance balances receivable. For further details on these balances including the names of our most significant reinsurance counterparties, see Item 8, Note 10, “Reinsurance,” to the Consolidated Financial Statements included herein. Other sources of potential exposure to European credit issues may exist within certain lines of insurance or reinsurance business written (including but not limited to lines such as surety, business interruption, and political risk), or within underlying investments held in securitized financial instruments or in structured transactions in which we have an interest. We consider these potential exposures as part of our ongoing enterprise risk management processes.

Fair Value Measurements of Assets and Liabilities

As described in Item 8, Note 4, “Fair Value Measurements,” to the Consolidated Financial Statements included herein, we have provided required disclosures by level within the fair value hierarchy of the Company’s assets and liabilities that are carried at fair value. As defined in the hierarchy, those assets and liabilities categorized as Level 3 have valuations determined using unobservable inputs. Unobservable inputs may include an entity’s own assumptions about market participant assumptions, applied to a modeled valuation, however, this is not the case with respect to the Company’s Level 3 assets and liabilities. The vast majority of the assets and liabilities classified as Level 3 are made up of those securities for which the values were obtained from brokers where either significant inputs were utilized in determining the values that were difficult to corroborate with observable market data or sufficient information regarding the specific inputs utilized by the broker was not obtained to support a Level 2 classification.

Controls over Valuation of Financial Instruments

We perform regular reviews of the prices received from our third party valuation sources to assess whether the prices represent a reasonable estimate of the fair value. This process is completed by investment and accounting personnel who are independent of those responsible for obtaining the valuations. The approaches we take include, but are not limited to, annual reviews of the controls of the external parties responsible for sourcing valuations that are subjected to automated tolerance checks, quarterly reviews of the valuation sources and dates, comparison of executed sales prices to prior valuations, regular deep dives on a sample of securities across our major asset classes and monthly reconciliations between the valuations provided by our external parties and valuations provided by our third party investment managers at a portfolio level.

In addition, we assess the effectiveness of valuation controls performed by external parties responsible for sourcing appropriate valuations from third parties on our behalf. The approaches taken by these external parties to gain comfort include,

but are not limited to, comparing valuations between external sources, completing recurring reviews of third party pricing services' methodologies and reviewing controls of the third party service providers to support the completeness and accuracy of the prices received. Where broker quotes are the primary source of the valuations, sufficient information regarding the specific inputs utilized by the brokers is generally not available to support a Level 2 classification. We obtain the majority of broker quoted values from third party investment managers who perform independent verifications of these valuations using pricing matrices based upon information gathered by market traders. In addition, for the majority of these securities, we compare the broker quotes to independent valuations obtained from third party pricing vendors, which may also consist of broker quotes, to assess if the prices received represent a reasonable estimate of the fair value.

Valuation Methodology of Level 3 Assets and Liabilities

See Item 8, Note 4, "Fair Value Measurements," of the Consolidated Financial Statements included herein, for a description of the valuation methodology utilized to value Level 3 assets and liabilities, how the valuation methodology is validated as well as further details associated with various assets classified as Level 3. At December 31, 2014, we did not have any liabilities that were carried at fair value based on Level 3 inputs other than derivative instruments in a liability position at December 31, 2014.

Fair Value of Level 3 Assets and Liabilities

At December 31, 2014, the fair value of total assets and liabilities carried at fair value, the fair value of Level 3 assets and liabilities and the percentage of Level 3 assets to our total assets and liabilities that are carried at fair value were as follows:

(U.S. dollars in thousands)	Total Assets and Liabilities Carried at Fair Value at December 31, 2014	Fair Value of Level 3 Assets and Liabilities	Level 3 Assets and Liabilities as a Percentage of Total Assets and Liabilities Carried at Fair Value, by Class
Assets			
Fixed maturities, at fair value			
U.S. Government and Government Agency-Related/Supported	$ 2,171,953	$ —	—%
Corporate	8,778,373	5,894	0.1%
RMBS – Agency	3,728,576	1,910	0.1%
RMBS – Non-Agency	427,351	—	—%
CMBS	1,052,544	—	—%
CDO	692,034	687,958	99.4%
Other asset-backed securities	1,065,293	5,288	0.5%
U.S. States and political subdivisions of the States	2,021,272	—	—%
Non-U.S. Sovereign Government, Supranational and Government-Related	4,240,073	—	—%
Total Fixed maturities, at fair value	$ 24,177,469	$ 701,050	2.9%
Equity securities, at fair value	868,292	—	—%
Short-term investments, at fair value	256,727	—	—%
Total investments available for sale	$ 25,302,488	$ 701,050	2.8%
Cash equivalents (1)	1,501,832	—	—%
Other investments (2)	894,057	185,083	20.7%
Other assets (3)	135,963	13,663	10.0%
Total assets carried at fair value	$ 27,834,340	$ 899,796	3.2%
Liabilities			
Financial instruments sold, but not yet purchased (4)	$ 30,406	$ —	—%
Other liabilities (5)	30,488	23,427	76.8%
Total liabilities carried at fair value	$ 60,894	$ 23,427	38.5%

____

(1) Cash equivalents balances subject to fair value measurements include certificates of deposit and money market funds.

(2) The Other investments balances exclude certain structured transactions including certain investments in project finance transactions and a payment obligation (for further information, see Item 8, Note 8, "Other Investments," to the Consolidated Financial Statements included herein) that has provided liquidity financing to a structured credit vehicle as a part of a third party medium term note facility. These Other investments are carried at amortized cost, which totaled $354.4 million at December 31, 2014.

(3) Other assets include derivative instruments, reported on a gross basis.

(4) Financial instruments sold, but not yet purchased, are included within "Payable for investments purchased" on the balance sheets.

(5) Other liabilities include derivative instruments, reported on a gross basis.

At December 31, 2014, our Level 3 assets represented approximately 3.2% of assets that are measured at fair value and represented approximately 2% of total assets. Our Level 3 liabilities represented approximately 38.5% of liabilities that are measured at fair value but less than 1% of total liabilities at December 31, 2014.

Changes in the Fair Value of Level 3 Assets and Liabilities

See Item 8, Note 4, "Fair Value Measurements," to the Consolidated Financial Statements included herein, for an analysis of the change in fair value of Level 3 Assets and Liabilities.

Unpaid Losses and Loss Expenses

We establish reserves to provide for estimated claims, the general expenses of administering the claims adjustment process and losses incurred but not reported. These reserves are calculated using actuarial and other reserving techniques to project the estimated ultimate net liability for losses and loss expenses. Our reserving practices and the establishment of any particular reserve reflect our judgment concerning sound financial practice and do not represent any admission of liability with respect to any claims made against us.

Gross unpaid losses and loss expenses totaled $19.4 billion and $20.5 billion at December 31, 2014 and 2013, respectively. The table below represents a reconciliation of our P&C unpaid losses and loss expenses for the year ended December 31, 2014:

(U.S. dollars in thousands)	Gross unpaid losses and loss expenses	Unpaid losses and loss expenses recoverable	Net unpaid losses and loss expenses
Balance at December 31, 2013	$ 20,481,065	$ (3,414,735)	$ 17,066,330
Losses and loss expenses incurred	3,985,238	(726,843)	3,258,395
Losses and loss expenses paid/recovered	(4,499,644)	678,307	(3,821,337)
Foreign exchange and other	(613,416)	51,745	(561,671)
Balance at December 31, 2014	$ 19,353,243	$ (3,411,526)	$ 15,941,717

While we regularly review the adequacy of established reserves for unpaid losses and loss expenses, no assurance can be given that actual claims made and payments related thereto will not be in excess of the amounts reserved. In the future, if such reserves develop adversely, such deficiency would have a negative impact on future results of operations. For further discussion, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates – 1) Unpaid Loss and Loss Expenses and Unpaid Loss and Loss Expenses Recoverable," and Item 8, Note 11, "Losses and Loss Expenses," to the Consolidated Financial Statements included herein.

Unpaid Losses and Loss Expenses Recoverable and Reinsurance Balances Receivable

In the normal course of business, we seek to reduce the potential amount of loss arising from claims events by reinsuring certain levels of risk assumed in various areas of exposure with other insurers or reinsurers. While reinsurance agreements are designed to limit our losses from large exposures and permit recovery of a portion of direct unpaid losses, reinsurance does not relieve our ultimate liability to the insureds. Accordingly, the losses and loss expense reserves on the balance sheets represent our total unpaid gross losses. Unpaid losses and loss expense recoverable relates to estimated reinsurance recoveries on the unpaid loss and loss expense reserves.

The table below presents our net paid and unpaid losses and loss expenses recoverable and reinsurance balances receivable as follows:

(U.S. dollars in thousands)	2014	2013
Reinsurance balances receivable	$ 153,613	$ 163,066
Reinsurance recoverable on future policy benefits (excluding balances related to the Life Retro Arrangements)	17,840	20,493
Reinsurance recoverable on unpaid losses and loss expenses	3,453,873	3,456,088
Bad debt reserve on unpaid losses and loss expenses recoverable and reinsurance balances receivable	(64,439)	(85,532)
Net paid and unpaid losses and loss expenses recoverable and reinsurance balances receivable	$ 3,560,887	$ 3,554,115

We have credit risk should any of our reinsurers be unable or unwilling to settle balances, net of collateral, due. The definition of collateral for this purpose requires some judgment and is generally limited to assets held in trust, letters of credit, and liabilities held by us with the same legal entity for which we believe there is a right of offset. We are the beneficiary of letters of credit, trust accounts and funds withheld in the aggregate amount of $2.0 billion and $1.8 billion at December 31, 2014 and 2013, respectively, collateralizing reinsurance recoverables with respect to certain reinsurers. The provision for

uncollectible reinsurance is required principally due to the failure of reinsurers to indemnify us primarily because of disputes under reinsurance contracts and insolvencies. At December 31, 2014 and 2013, we had a reserve for potential non-recoveries from reinsurers of $64.4 million and $85.5 million, respectively.

At December 31, 2014 and 2013, approximately 93% and 90%, respectively, of the total unpaid loss and loss expense recoverable and reinsurance balances receivable, net of collateral held, was due from reinsurers with a financial strength rating of "A" or better. The following is an analysis of the total recoverable and reinsurance balances receivable, net of collateral held, at December 31, 2014, by reinsurers owing 3% or more of such total:

Name of Reinsurer	Reinsurer Financial Strength Rating	% of Total
Munich Reinsurance Co.	AA-/Stable	10.5%
Swiss Reinsurance Co.	AA-/Stable	8.8%
Transatlantic Reinsurance Co.	A+/Stable	8.1%
Swiss Re Europe S.A.	AA-/Stable	7.7%
Arch Reinsurance Co.	A+/Stable	6.3%
Lloyd's Syndicates	A+/Stable	5.1%
AXIS Reinsurance Co.	A+/Stable	4.6%

The following table sets forth the ratings profile of the reinsurers that support the unpaid loss and loss expense recoverable and reinsurance balances receivable, net of collateral, at December 31, 2014:

Reinsurer Financial Strength Rating	% of Total
AAA	0.1%
AA	42.0%
A	50.4%
BBB	0.4%
Captives	5.4%
Other	1.7%
Total	100.0%

In addition, under the terms of the transaction as described in Item 8, Note 3, "Sale of Life Reinsurance Subsidiary," to the Consolidated Financial Statements included herein, the Company has reinsured $4.3 billion of its future policy benefit reserves. Based upon the contractual right of offset, future policy benefit reserves recoverable are netted against the funds withheld liability owing to GCLR. See Item 8, Note 14, "Funds Withheld on Life Retrocession Arrangements," to the Consolidated Financial Statement included herein for further information.

Liquidity and Capital Resources

Liquidity is a measure of our ability to generate sufficient cash flows to meet the short and long-term cash requirements of our business operations. As a global insurance and reinsurance company, one of our principal responsibilities to clients is to ensure that we have ready access to funds with which to settle large or multiple unforeseen claims. We would generally expect that positive cash flow from operations (underwriting activities and investment income) will be sufficient to cover cash outflows under most future loss scenarios. However, there is a possibility that unforeseen demands could be placed on us due to extraordinary events and, as such, our liquidity needs may change. Such events include, among other things: several significant catastrophes occurring in a relatively short period of time resulting in material incurred losses; rating agency downgrades of our core insurance and reinsurance subsidiaries that would require posting of collateral in connection with our letter of credit and revolving credit facilities; return of unearned premiums and/or the settlement of derivative transactions and large scale uncollectible reinsurance recoverables on paid losses (as a result of coverage disputes, reinsurers' credit problems or decreases in the value of collateral supporting reinsurance recoverables). Any one or a combination of such events may cause a liquidity strain for us. In addition, a liquidity strain could also occur when there is illiquidity in financial markets, such as that which was experienced in 2008. Investments that may be used to meet liquidity needs in the event of a liquidity strain may not be liquid due to inactive markets, or may have to be sold at a significant loss as a result of depressed prices. Because each subsidiary focuses on a more limited number of specific product lines than is collectively available from the consolidated group of companies, the mix of business tends to be less diverse at the subsidiary level. As a result, the probability of a liquidity strain, as described above, may be greater for individual subsidiaries than when liquidity is assessed on a consolidated basis. If such a liquidity strain were to occur in a subsidiary, XL-Ireland may be required to contribute capital to the particular subsidiary and/or curtail dividends from the subsidiary to support holding company operations, which may be difficult given that XL-Ireland is a holding company and has limited liquidity.

A downgrade below “A-” of our principal insurance and reinsurance subsidiaries by either S&P or A.M. Best, which is three notches below the current S&P financial strength rating of “A+” (Stable) and two notches below the A.M. Best financial strength rating of “A” (Stable) of these subsidiaries, may trigger cancelation provisions in a significant amount of our assumed reinsurance agreements and may potentially require us to return unearned premiums to cedants. In addition, due to collateral posting requirements under our letter of credit and revolving credit facilities, such a downgrade may require the posting of cash collateral in support of certain “in use” portions of these facilities. Specifically, a downgrade below “A-” by A.M. Best would constitute an event of default under our two largest credit facilities and may trigger such collateral requirements. In certain limited instances, such downgrades may require that we return cash or assets to counterparties or to settle derivative and/or other transactions with the respective counterparties. See Item 1A, “Risk Factors,” included herein.

Holding Company Liquidity

As holding companies, XL-Ireland and XL-Cayman have no operations of their own and their assets consist primarily of investments in subsidiaries. XL-Ireland's principal uses of liquidity are ordinary share-related transactions, including dividend payments to holders of its ordinary shares as well as share buybacks, capital investments in its subsidiaries and certain corporate operating expenses. XL-Cayman's principal uses of liquidity are preference share related transactions, including dividend payments to its preference shareholders as well as preference share buybacks from time to time, interest and principal payments on debt, dividends to XL-Ireland and certain corporate operating expenses. All of our outstanding debt securities were issued by XL-Cayman.

XL-Ireland's future cash flows largely depend on the availability of dividends or other permissible payments from subsidiaries to make principal and interest payments on debt, to pay operating expenses and ordinary shareholder dividends, to make capital investments in subsidiaries and to pay other obligations that may arise from time to time. The ability of our subsidiaries to pay dividends to us or return capital from shareholders' equity is limited by applicable laws and regulations of the various jurisdictions in which we operate, certain additional required regulatory approvals and financial covenants contained in our letters of credit and revolving credit facilities. The payment of dividends by our principal operating subsidiaries is regulated under the laws of various jurisdictions including Bermuda, the U.K., Ireland and Switzerland, certain insurance statutes of various states in the United States in which the principal operating subsidiaries are licensed to transact business, the other jurisdictions where we have regulated subsidiaries and regulations of the Society of Lloyd's. See Item 8, Note 25, “Statutory Financial Data,” to the Consolidated Financial Statements for further discussion and details regarding the dividend capacity of our major operating subsidiaries. See also Item 1A, “Risk Factors – Our holding company structure and certain regulatory and other constraints affect our ability to pay dividends, make payments on our debt securities and make other payments,” included herein. No assurance can be given that our subsidiaries will pay dividends in the future to XL-Ireland and XL-Cayman.

Under Irish law, share premium was required to be converted to “distributable reserves” for XL-Ireland to pay cash dividends and redeem and buyback shares following the redomestication transaction in which all of the ordinary shares of XL-Cayman were exchanged for all of the ordinary shares of XL-Ireland. On July 23, 2010, the Irish High Court approved XL-Ireland's conversion of share premium to $5.0 billion of distributable reserves, subject to the completion of certain formalities under Irish Company law. These formalities were completed in early August 2010. At December 31, 2014, XL-Ireland had $2.9 billion in distributable reserves.

At December 31, 2014, XL-Ireland and XL-Cayman held cash and investments, net of liabilities associated with cash sweeping arrangements, of $22.4 million and $0.9 billion, respectively, compared to $12.7 million and $1.6 billion, respectively, at December 31, 2013.

The ability of XL-Cayman, like that of XL-Ireland, to obtain funds from its subsidiaries to satisfy any of its debts, including obligations under guarantees, is subject to certain contractual restrictions, applicable laws and statutory requirements of the various countries in which we operate, including, among others, Bermuda, the United States, Ireland, Switzerland and the United Kingdom. For details of the required statutory capital and surplus for our principal operating subsidiaries, see Item 8, Note 25, “Statutory Financial Data,” to the Consolidated Financial Statements included herein.

See also the Consolidated Statements of Cash Flows in Item 8, Financial Statements included herein.

Sources of Liquidity

At December 31, 2014, on a consolidated basis we had cash and cash equivalents of approximately $2.5 billion as compared to approximately $1.8 billion at December 31, 2013. We have three main sources of cash flows – those provided by operations, investing activities and financing activities:

Total cash provided by (used in): *(U.S. dollars in thousands)*		**2014**		**2013**		**2012**
Operating activities	$	963,184	$	779,977	$	1,056,106
Investing activities	$	1,711,621	$	(1,197,862)	$	(942,593)
Financing activities	$	(1,863,708)	$	(394,843)	$	(1,344,753)
Effects of exchange rate changes on foreign currency cash	$	(90,115)	$	(4,818)	$	24,493

Operating Cash Flows

Historically, cash receipts from operations that are typically derived from the receipt of investment income on our investment portfolio as well as the net receipt of premiums less claims and expenses related to our underwriting activities have generally provided sufficient funds to pay losses as well as operating expenses of our subsidiaries and to fund dividends payable by our subsidiaries to XL-Ireland. Cash receipts from operations are generally derived from the receipt of investment income on our investment portfolio as well as the net receipt of premiums less claims and expenses related to our underwriting activities in our P&C and Run-Off Life Operations. Our operating subsidiaries provide liquidity in that premiums are generally received months or even years before losses are paid under the policies related to such premiums. Premiums and acquisition expenses are settled based on terms of trade as stipulated by an underwriting contract, and generally are received within the first year of inception of a policy when the premium is written, but can be up to three years on certain reinsurance business assumed. Operating expenses are generally paid within a year of being incurred. Claims, especially for casualty business, may take a much longer time before they are reported and ultimately settled, requiring the establishment of reserves for unpaid losses and loss expenses. Therefore, the amount of claims paid in any one year is not necessarily related to the amount of net losses incurred, as reported in the consolidated statement of income.

During the year ended December 31, 2014, net cash flows provided by operating activities were $1.0 billion compared to net cash flows provided by operating activities of $0.8 billion for the same period in 2013. Although net income was lower during the year ended December 31, 2014, that decrease was more than offset by increases in other components of non-cash working capital resulting in higher net cash flows from operating activities for 2013.

Investing Cash Flows

Generally, positive cash flow from operations and financing activities is invested in our investment portfolio, including affiliates or the acquisition of subsidiaries.

Net cash provided by investing activities was $1.7 billion in the year ended December 31, 2014 compared to net cash used of $1.2 billion for the same period in 2013. These cash flows were associated with the normal purchase and sale of portfolio investments. As further outlined in Item 8, Note 3, “Sale of Life Reinsurance Subsidiary,” to the Consolidated Financial Statements included herein, the Company received sale proceeds of $570 million in cash during the year ended December 31, 2014.

Certain of our invested assets are held in trust and pledged in support of insurance and reinsurance liabilities as well as credit facilities. Such pledges are largely required by our operating subsidiaries that are “non-admitted” under U.S. state insurance regulations, in order for the U.S. cedant to receive statutory credit for reinsurance. Also, certain deposit liabilities and annuity contracts require the use of pledged assets. As further outlined in Item 8, Note 6, “Investments – Pledged Assets,” to the Consolidated Financial Statements included herein, certain assets of the investment portfolio are pledged as collateral under our letter of credit facilities. At December 31, 2014 and 2013, we had $15.2 billion and $15.5 billion in pledged assets, respectively.

Financing Cash Flows

Cash flows related to financing activities include ordinary and preference share related transactions, the payment of dividends, the issue or repayment of preference ordinary shares, the issue or repayment of debt and deposit liability transactions. During the year ended December 31, 2014, net cash flows used in financing activities were $1.9 billion compared to net cash used of $0.4 billion for the same period in 2013. During the years ended December 31, 2014 and 2013, financing cash flows were predominantly impacted by the repayment of debt in 2014, the issuance of debt in 2013, and share buybacks and the repayment of deposit liabilities in both years. For more information regarding our share buyback programs and debt activity during the years ended December 31, 2014 and 2013, see "Other Key Focuses of Management - Capital Management" included herein. The cash outflows associated with the repayment of deposit liabilities were primarily from a negotiated

termination of one of our larger structured indemnity contracts, during the second quarter of 2014, together with normal course cashflows from the remaining deposit accounted transactions.

In addition, we maintain credit facilities that provide liquidity. Details of these facilities are described below in “Capital Resources.”

Capital Resources

At December 31, 2014 and 2013, we had total shareholders’ equity of $11.4 billion and $11.3 billion, respectively. In addition to ordinary share capital, we depend on external sources of financing to support our underwriting activities in the form of:

a. debt;

b. preference shares;

c. letter of credit facilities and other sources of collateral; and

d. revolving credit facilities.

In particular, we require, among other things:

- sufficient capital to maintain our financial strength and credit ratings, as issued by several ratings agencies, at levels considered necessary by management to enable our key operating subsidiaries to compete;
- sufficient capital to enable our regulated subsidiaries to meet the regulatory capital levels required in the United States, the U.K., Bermuda, Ireland, Switzerland and other key markets;
- letters of credit and other forms of collateral that are required to be posted or deposited, as the case may be, by our operating subsidiaries that are “non-admitted” under U.S. state insurance regulations in order for the U.S. cedant to receive statutory credit for reinsurance. We also use letters of credit to support our operations at Lloyd's; and
- revolving credit facilities to meet short-term liquidity needs.

The following risks are associated with our requirement to renew or obtain new credit facilities:

- the credit available from banks may be reduced due to market conditions resulting in our need to pledge our investment portfolio to customers, which could result in a lower investment yield;
- we may be downgraded by one or more rating agencies, which could materially and negatively impact our business, financial condition, results of operations and/or liquidity; and
- the volume of business that our subsidiaries that are not admitted in the United States are able to transact could be reduced if we are unable to obtain letter of credit facilities at an appropriate amount.

Consolidation within the banking industry may result in the aggregate amount of credit provided to us being reduced. We attempt to mitigate this risk by identifying and/or selecting additional banks that can participate in the credit facilities upon renewal. See Item 1A, “Risk Factors.”

The following table summarizes the components of our current capital resources as follows:

(U.S. dollars in thousands)	2014	2013
Non-controlling interests - Series D preference ordinary shares in XL-Cayman	$ 345,000	$ 345,000
Non-controlling interests - Series E preference ordinary shares in XL-Cayman	999,500	999,500
Non-controlling interests - Other	57,515	7,165
Ordinary share capital	10,033,752	9,997,633
Total ordinary shares and non-controlling interests	$ 11,435,767	$ 11,349,298
Notes payable and debt	1,662,580	2,260,436
Total	$ 13,098,347	$ 13,609,734

Ordinary Share Capital

The following table reconciles the opening and closing ordinary share capital positions as follows:

(U.S. dollars in thousands)	2014	2013
Ordinary shareholders' equity – beginning of period	$ 9,997,633	$ 10,510,077
Net income (loss) attributable to ordinary shareholders	188,340	1,059,916
Share buybacks	(801,953)	(675,616)
Share issues	6,406	12,665
Ordinary share dividends	(172,080)	(162,043)
Change in accumulated other comprehensive income	747,801	(783,363)
Share based compensation and other	67,605	35,997
Ordinary shareholders' equity – end of period	$ 10,033,752	$ 9,997,633

Debt

The following tables present our debt under outstanding securities and lenders' commitments at December 31, 2014:

				Payments Due by Period			
(U.S. dollars in thousands)	Commitment/ Debt	In Use/ Outstanding	Year of Expiry	Less than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years
5-year revolver	$ 1,000,000	$ —	2018	$ —	$ —	$ —	$ —
2.30% Senior Notes	300,000	297,344	2018	—	—	300,000	—
5.75% Senior Notes	400,000	397,092	2021	—	—	—	400,000
6.375% Senior Notes	350,000	348,920	2024	—	—	—	350,000
6.25% Senior Notes	325,000	323,062	2027	—	—	—	325,000
5.25% Senior Notes	300,000	296,162	2043	—	—	—	300,000
Total	$ 2,675,000	$ 1,662,580		$ —	$ —	$ 300,000	$ 1,375,000

"In Use/Outstanding" data represent December 31, 2014 accreted values. "Payments Due by Period" data represents ultimate redemption values.

In addition, see Item 8, Note 15, "Notes Payable and Debt and Financing Arrangements," to the Consolidated Financial Statements included herein for further information.

At December 31, 2014, banks and investors provided us with $2.7 billion of debt capacity, of which $1.7 billion was utilized. This debt capacity consists of:

- a revolving credit facility of $1.0 billion; and
- senior unsecured notes of approximately $1.7 billion issued by XL-Cayman. These notes require XL-Cayman to pay a fixed rate of interest during their terms. At December 31, 2014, there were five outstanding issues of senior unsecured notes:
  - $300 million senior notes due December 2018, with a fixed coupon of 2.30%. The security is publicly traded. The notes were issued at 99.69% and net proceeds were $296.6 million. Related expenses of the offering amounted to $2.5 million.
  - $400 million senior notes due October 2021, with a fixed coupon of 5.75%. The security is publicly traded. The notes were issued at 100.0% and net proceeds were $395.7 million. Related expenses of the offering amounted to $4.3 million.
  - $350 million senior notes due November 2024, with a fixed coupon of 6.375%. The security is publicly traded. The notes were issued at 100.0% and net proceeds were $347.8 million. Related expenses of the offering amounted to $2.2 million.
  - $325 million of senior notes due May 2027, with a fixed coupon of 6.25%. The security is publicly traded. The notes were issued at 99.805% and net proceeds were $321.9 million. Related expenses of the offering amounted to $2.5 million.
  - $300 million senior notes due December 2043, with a fixed coupon of 5.25%. The security is publicly traded. The notes were issued at 99.77% and net proceeds were $296.0 million. Related expenses of the offering amounted to $3.3 million.

At December 31, 2014, $575 million of letters of credit were issued under the 2013 Citi Agreements (as defined below) and therefore this facility is not available for revolving credit loans.

Preferred Shares - Non-controlling Interest in Equity of Consolidated Subsidiaries

The Series D preference ordinary shares and the Series E preference ordinary shares were issued by XL-Cayman. Accordingly, these instruments represent non-controlling interests in our consolidated financial statements and are presented as non-controlling interest in equity of consolidated subsidiaries. At December 31, 2014 and 2013, the face values of the outstanding Series D and Series E preference ordinary shares were $345.0 million and $999.5 million, respectively.

Letter of Credit Facilities and other sources of collateral

At December 31, 2014, we had eight letter of credit ("LOC") facilities in place with total availability of $3.6 billion, of which $1.8 billion was utilized.

				Amount of Commitment Expiration by Period			
(U.S. dollars in thousands)	Commitment/ Debt	In Use/ Outstanding	Year of Expiry	Less than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years
LOC Facility (1) (2)	$ 1,000,000	$ 31,087	2018	$ —	$ —	$ 1,000,000	$ —
LOC Facility (2)	1,000,000	772,681	2018	—	—	1,000,000	—
LOC Facility	600,000	278,789	Continuous	—	—	—	600,000
LOC Facility	250,000	133,004	Continuous	—	—	—	250,000
LOC Facility (3)	275,000	275,000	2015	275,000	—	—	—
LOC Facility (3)	200,000	200,000	2015	200,000	—	—	—
LOC Facility (3)	100,000	100,000	2016	—	100,000	—	—
LOC Facility	150,000	—	Continuous	—	—	—	150,000
Total LOC facilities	$ 3,575,000	$ 1,790,561		$ 475,000	$ 100,000	$ 2,000,000	$ 1,000,000

____

(1) This letter of credit facility includes $1.0 billion that is also included in the "5-year revolver" listed under Debt. See the discussion regarding the Syndicated Credit Agreements (defined below).

(2) We have the option to increase the size of the facilities under the Syndicated Credit Agreements by an additional $500 million across both such facilities.

(3) We have the option to increase the maximum amount of letters of credit and revolving credit loans available under the 2013 Citi Agreements, with the lender's and issuing lender's consent.

In November 2013, we (i) entered into two new credit agreements (together, the "Syndicated Credit Agreements"), which provided for an aggregate amount of outstanding letters of credit and revolving credit loans of up to $2 billion, subject to certain options to increase the size of the facilities, and (ii) terminated the secured credit agreements dated March 25, 2011 and December 9, 2011, and the unsecured credit agreement dated December 9, 2011, which had provided for an aggregate amount of outstanding letters of credit and revolving credit loans of up to $3 billion.

The Syndicated Credit Agreements consist of (i) a secured credit agreement, which provides for the issuance of up to $1 billion of letters of credit and (ii) an unsecured credit agreement, which provides for the issuance of up to $1 billion of letters of credit and revolving credit loans. We have the option to increase the maximum amount of letters of credit available by an additional $500 million across the facilities under the Syndicated Credit Agreements.

The commitments under the Syndicated Credit Agreements expire on, and such credit facilities are available until, the earlier of (i) November 22, 2018 and (ii) the date of termination in whole of the commitments upon an optional termination or reduction of the commitments by the account parties or upon the occurrence of certain events of default.

The availability of letters of credit under the secured portion of the Syndicated Credit Agreements is subject to a borrowing base requirement, determined on the basis of specified percentages of the face value of eligible categories of assets varying by type of collateral. In the event that such credit support is insufficient, we could be required to provide alternative security to cedants. This could take the form of insurance trusts supported by our investment portfolio or funds withheld (amounts retained by ceding companies to collateralize loss or premium reserves) using our cash resources or combinations thereof. The face amount of letters of credit required is driven by, among other things, loss development of existing reserves, the payment pattern of such reserves, the expansion of business written by us and the loss experience of such business.

On May 7, 2013, XL-Cayman entered into a new credit agreement with Citicorp USA, Inc., as administrative agent and issuing lender, and the lenders party thereto, and a continuing agreement for standby letters of credit with Citibank, N.A. On May 13, 2013 and May 15, 2013, XL-Cayman entered into a first amendment and a second amendment, respectively, to such credit agreement (as amended, the "May 2013 Credit Agreement").

On August 6, 2013, XL-Cayman entered into a new credit agreement with Citicorp USA, Inc., as administrative agent and issuing lender, and the lenders party thereto and a continuing agreement for standby letters of credit with Citibank, N.A. On September 12, 2013, XL-Cayman entered into a first amendment to such credit agreement (as amended, the “August 2013 Credit Agreement”).

Additionally, on November 4, 2013, XL-Cayman entered into a new credit agreement with Citicorp USA, Inc., as administrative agent and issuing lender, and the lenders party thereto and a continuing agreement for standby letters of credit with Citibank, N.A. (the "November 2013 Credit Agreement" and, together with the May 2013 Credit Agreement and the August 2013 Credit Agreement, the "2013 Citi Agreements").

Collectively, the 2013 Citi Agreements and the continuing agreements for standby letters of credit provide for issuance of letters of credit and revolving credit loans in an aggregate amount of up to $575 million. XL-Cayman has the option to increase the maximum amount of letters of credit and revolving credit loans available under the 2013 Citi Agreements with the lender's and issuing lender's consent.

The commitments under the 2013 Citi Agreements expire on, and such credit facilities are available until, the earlier of (i) June 20, 2015 (with respect to the May 2013 Credit Agreement), September 20, 2015 (with respect to the August 2013 Credit Agreement) and December 20, 2016 (with respect to the November 2013 Credit Agreement) and (ii) the date of termination in whole of the commitments upon an optional termination or reduction of the commitments by the account parties or upon the occurrence of certain events of default.

On December 30, 2014, we reduced the commitments available under a continuous letter of credit facility between XL Insurance (Bermuda) Ltd. and Citibank Europe plc from $750 million to $600 million simultaneous with XL Insurance (Bermuda) Ltd. entering into a continuous $150 million letter of credit facility with ING Bank N.V., London Branch.

In addition to letters of credit, we have established insurance trusts in the United States that provide cedants with statutory credit for reinsurance under state insurance regulation in the United States.

We review current and projected collateral requirements on a regular basis, as well as new sources of collateral. Our objective is to maintain an excess amount of collateral sources over expected uses. We also review our liquidity needs on a regular basis.

Covenants

Our Credit Facilities contain a number of financial covenants that must be met and maintained and that, among other things, could restrict, subject to certain exceptions, our financial flexibility including the ability to:

- engage in mergers or consolidations;
- dispose of assets outside of the ordinary course of business;
- create liens on assets; and
- engage in certain transactions with affiliates.

The following outlines the covenant requirements and actual amounts as of December 31, 2014:

	Covenant Requirement	Actual Ratio or Balance	Margin of Compliance at December 31, 2014
Ratio of Total Funded Debt to Total Capitalization (1)	Less than 0.35 : 100	0.14 : 1.00	$2.4 billion
Maximum Secured Indebtedness (2)	Less than 20% of consolidated net worth	Nil	$2.0 billion
Consolidated Net Worth (3)	$6.8 billion	$10.0 billion	$3.2 billion
Financial Strength Ratings (4)	A– or better from A.M. Best	A (Stable)	Two notches

____

(1) The ratio of total funded debt to total capitalization must not be greater than 0.35:1.00. This ratio is defined as total funded debt to the sum of total funded debt plus consolidated net worth.

(2) Secured indebtedness excludes secured letter of credit facilities as permitted under the schedules to the credit facilities. At December 31, 2014, such secured letter of credit facilities amounted to $1.19 billion.

(3) Consolidated net worth means, at any time, our consolidated shareholders’ equity excluding (a) the effect of any adjustments required under the authoritative accounting guidance for accounting for certain investments in debt and equity securities; and (b) any exempt indebtedness (and the assets relating thereto) in the event such exempt indebtedness is consolidated on our consolidated balance sheet.

(4) Covenants require that none of XL Insurance (Bermuda) Ltd, XL Re Ltd or XL Re Europe SE has a financial strength rating of less than “A –” from A.M. Best. At December 31, 2014, we were in compliance with such covenants.

As noted in the table above, at December 31, 2014, we were in compliance with all covenants by significant margins, and we currently remain in compliance.

Subsequent Events

Catlin Acquisition

On January 9, 2015, we entered into the Implementation Agreement with Catlin and Green Holdings, a direct, wholly-owned subsidiary of XL-Ireland. Under the terms of the Acquisition, Catlin shareholders will be entitled to receive 388 pence in cash and 0.130 ordinary shares of XL-Ireland, in exchange for each Catlin Share, subject to the proration and adjustment mechanisms set forth in the Implementation Agreement. On the basis of the closing price of an ordinary share of XL-Ireland on January 8, 2015 of $35.42, the Acquisition values Catlin at 693 pence per Catlin Share, representing a transaction equity value of approximately $4.1 billion. For further information on the Acquisition, see the Company's Report on Form 8-K filed with the SEC on January 9, 2015 under Items 1.01, 2.03, 3.02, 8.01 and 9.01.

On January 9, in connection with the Acquisition, XL-Cayman, as borrower, XL-Ireland, X.L. America, Inc., XLIB, XL Re Ltd, and XL Life Ltd, as guarantors, Morgan Stanley Senior Funding, Inc., as administrative agent, and the lenders party thereto entered into a senior unsecured 364-Day Bridge Loan Agreement providing for a £1.6 billion Bridge Facility. The proceeds of the Bridge Facility may be used to finance the payment of the cash consideration in connection with the Acquisition and to pay fees and expenses related thereto. For further information on the Bridge Facility, see the Company's Report on Form 8-K filed with the SEC on January 9, 2015 under Items 1.01, 2.03, 3.02, 8.01 and 9.01.

Sale of Strategic Operating Affiliate

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

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

Cross-Default And Other Provisions In Debt Instruments

The following describes certain terms of the documents referred to above. All such documents have been filed with the SEC and should be referred to for an assessment of our complete contractual obligations.

In general, all of our bank facilities, indentures and other documents relating to our outstanding indebtedness, including the credit facilities discussed above (collectively, the "Debt Documents"), contain cross acceleration or cross default provisions to each other and the Debt Documents contain affirmative covenants. These covenants provide for, among other things, a maximum ratio of total consolidated debt to the sum of total consolidated debt plus consolidated net worth, and that specified operating subsidiaries maintain a financial strength rating of no less than "A-" from A.M. Best. In addition, the Debt Documents contain other customary affirmative and negative covenants as well as certain customary events of default. Generally each of the Debt Documents provides for an event of default in the event of a change of control of the Company or certain events involving bankruptcy, insolvency or reorganization of the Company.

A downgrade below "A –" of our principal insurance and reinsurance subsidiaries by either S&P or A.M. Best, which is three notches below the current S&P financial strength rating of "A+" (Stable) and two notches below the A.M. Best financial strength rating of "A" (Stable) of these subsidiaries, may trigger cancelation provisions in a significant amount of our assumed reinsurance agreements and may potentially require us to return unearned premiums to cedants. In addition, due to collateral posting requirements under our letter of credit and revolving credit facilities, such a downgrade may require the posting of cash collateral in support of certain "in use" portions of these facilities (see "Liquidity and Capital Resources"). In certain limited instances, such downgrades may require us to return cash or assets to counterparties or to settle derivative and/or other transactions with the respective counterparties. See Item 1A, "Risk Factors – A downgrade or potential downgrade in our financial strength and credit ratings by one or more rating agencies could materially and negatively impact our business, financial condition, results of operations and/or cashflows."

Under the Syndicated Credit Agreements, in the event that XL Insurance (Bermuda) Ltd, XL Re Ltd or XL Re Europe SE fails to maintain a financial strength rating of at least "A –" from A.M. Best, an event of default would occur.

Given that all of the Debt Documents contain cross acceleration or cross default provisions, this may result in all holders declaring such debt due and payable and an acceleration of all debt due under those documents. If this were to occur, we may not have funds sufficient at that time to repay any or all of such indebtedness.

Long-Term Contractual Obligations

The following table presents our long term contractual obligations and related payments at December 31, 2014, due by period. This table excludes further commitments of $220.1 million related to our investment funds and certain limited partnerships, and in use letter of credit facilities of $1.8 billion. See Item 8, Note 16, "Derivative Instruments," Note 19, "Commitments and Contingencies," and Note 15, "Notes Payable and Debt and Financing Arrangements," to the Consolidated Financial Statements included herein, for further information.

Contractual Obligations *(U.S. dollars in thousands)*	**Total**	**Less than 1 year**	**1 to 3 years**	**3 to 5 years**	**More than 5 years**
Long-term debt obligations	$ 1,675,000	$ —	$ —	$ 300,000	$ 1,375,000
Interest on long-term debt	1,134,710	89,295	178,590	171,032	695,793
Operating lease obligations	183,740	36,588	68,976	54,089	24,087
Capital lease obligations	75,377	11,800	24,493	25,733	13,351
Deposit liabilities (1)	1,862,358	186,916	172,576	191,576	1,311,290
Future policy benefits (2)	6,299,783	381,872	742,792	719,662	4,455,457
Unpaid losses and loss expenses – P&C (3)	19,691,422	4,669,073	5,891,641	3,270,233	5,860,475
Total	$ 30,922,390	$ 5,375,544	$ 7,079,068	$ 4,732,325	$ 13,735,453

____

(1) Deposit liabilities were $1.2 billion on our Consolidated Balance Sheet at December 31, 2014. The difference from the amount included above relates to the discount on payments due in the future. The payment related to these liabilities varies primarily based on interest rates. The ultimate payments associated with these liabilities could differ from our estimate. See Item 8, Note 12, "Deposit Liabilities," to the Consolidated Financial Statements included herein, for further information.

(2) Future policy benefit reserves related to Life operations were $4.7 billion on our Consolidated Balance Sheet at December 31, 2014. Amounts reflected above include an allowance for future premiums in respect of contracts under which premiums are payable throughout the life of the underlying policy. The value of the discount is also included for those lines of business that have reserves where future claim payments and future premium receipts can be estimated using actuarial principles. The timing and amounts of actual claims payments and premium receipts related to these reserves vary based on the underlying experience of the portfolio. Typical elements of the experience include mortality, morbidity and persistency. The ultimate amount of the claims payments and premium receipts could differ materially from our estimated amounts.

(3) The unpaid loss and loss expenses were $19.4 billion on our Consolidated Balance Sheet at December 31, 2014. The difference from the amount included above relates to the discount on payments due in the future for certain workers compensation lines and certain U.K. motor liability claims. The timing and amounts of actual claims payments related to these P&C reserves vary based on many factors including large individual losses, changes in the legal environment, as well as general market conditions. The ultimate amount of the claims payments could differ materially from our estimated amounts. For information regarding the estimates for unpaid loss and loss expenses as well as factors affecting potential payment patterns of reserves for actual and potential claims related to our different lines of business, see "Critical Accounting Policies and Estimates" above. Certain lines of business written by us, such as excess casualty, have loss experience characterized as low frequency and high severity. This may result in significant variability in loss payment patterns and, therefore, may impact the related asset/liability investment management process. In order to be in a position, if necessary, to make these payments, our liquidity requirements are supported by having revolving lines of credit facilities available to us and significant reinsurance programs, in addition to our general high grade fixed income investment portfolio.

Variable Interest Entities ("VIEs") and Other Off-Balance Sheet Arrangements

At times, we have utilized VIEs both indirectly and directly in the ordinary course of our business as a means of accessing contingent capital. We have utilized unconsolidated entities in the formation of contingent capital facilities. See Item 8, Note 18, "Variable Interest Entities," to the Consolidated Financial Statements included herein, for further discussion.

Recent Accounting Pronouncements

See Item 8, Note 2, "Significant Accounting Policies," to the Consolidated Financial Statements included herein, for a discussion of recent accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

The following risk management discussion and the estimated amounts generated from the sensitivity and value-at-risk ("VaR") analyses presented in this document are forward-looking statements of market risk assuming certain adverse market conditions occur. Actual results in the future may differ materially from these estimated results due to, among other things, actual developments in the global financial markets and changes in the composition of our investment portfolio. The results of the analysis used by us to assess and mitigate risk should not be considered projections of future events of losses. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Cautionary Note Regarding Forward-Looking Statements."

As described in Item 8, Note 3, "Sale of Life Reinsurance Subsidiary," and Note 6, "Investments," to the Consolidated Financial Statements included herein, in connection with the Life Retro Arrangements, certain fixed maturities were reclassified from held to maturity to available for sale. All of the reclassified securities are included within the Life Funds Withheld Assets, along with certain other available for sale securities as defined in the sale and purchase agreement. The Life Funds Withheld Assets are managed pursuant to agreed investment guidelines that meet the contractual commitments of the XL ceding companies and applicable laws and regulations. All of the investment results associated with the Life Funds Withheld Assets ultimately accrue to GCLR. Because we no longer share in the risks and rewards of the underlying performance of the supporting invested assets, quantitative and qualitative disclosures about market risk exclude the Life Funds Withheld Assets.

Market risk represents the potential for loss due to adverse changes in the fair value of financial and other instruments. We are principally exposed to the following market risks: interest rate risk, foreign currency exchange rate risk, credit risk, equity price risk and other related market risks.

The majority of our market risk arises from the investment portfolio, which consists of fixed income securities, alternative investments, public equities, private investments, derivatives, other investments and cash, denominated in both U.S. and foreign currencies, which are sensitive to changes in interest rates, credit spreads, equity prices, foreign currency exchange rates and other related market risks. Our fixed income and equity securities are generally classified as available for sale, and, as such, changes in interest rates, credit spreads on corporate and structured securities, equity prices, foreign currency exchange rates or other related market instruments will have an immediate effect on comprehensive income and shareholders' equity but will not ordinarily have an immediate effect on net income. Nevertheless, changes in interest rates, credit spreads and defaults, equity prices and other related market instruments affect consolidated net income when, and if, a security is sold or impaired.

We may enter into derivatives to reduce risk or enhance portfolio efficiency. For example, we may use derivatives to hedge foreign exchange and interest rate risk related to our consolidated net exposures or to efficiently gain exposure to investments that are eligible under our Investment Policy. From time to time, we may also use instruments such as futures, options, interest rate swaps, credit default swaps and foreign currency forward contracts to manage the risk of interest rate changes, credit deterioration, foreign currency exposures, and other market related exposures as well as to obtain exposure to a particular financial market. We seek to manage the risks associated with the use of derivatives through our comprehensive framework of investment decision authorities ("Authorities Framework"). Derivative instruments are carried at fair value with the resulting changes in fair value recognized in income in the period in which they occur. For further information, see Item 8, Note 16, "Derivative Instruments," to the Consolidated Financial Statements included herein.

Interest Rate Risk (Excluding Life Funds Withheld Assets)

Interest rate risk is the price sensitivity of a fixed income security to changes in interest rates. Our fixed income portfolio is exposed to interest rate risk. Our liabilities are accrued at a static rate from an accounting standpoint. However, management considers the liabilities to have an economic exposure to interest rate risk and manages the net economic exposure to interest rate risk considering both assets and liabilities. Interest rate risk is managed within the context of our Strategic Asset Allocation ("SAA") process by specifying a SAA benchmark relative to the estimated duration of our liabilities and managing the fixed income portfolio relative to the benchmarks such that the overall economic effect of interest rate risk is within management's risk tolerance. Nevertheless, we remain exposed to interest rate risk with respect to our overall net asset position and more generally from an accounting standpoint since the assets are carried at fair value, while liabilities are accrued at a static rate. We may utilize derivative instruments via an interest rate overlay strategy to manage or optimize our duration and curve exposures.

In addition, while our debt is not carried at fair value and not adjusted for market changes, changes in market interest rates could have an impact on debt values at the time of any refinancing.

At December 31, 2014 and 2013, bond index futures outstanding had a net long position of $410.2 million and a net short position of $8.5 million, respectively, and stock index futures outstanding had net long positions of $3.8 million and $27.3

million, respectively. We may reduce our exposure to these futures through offsetting transactions, including options and forwards.

Foreign Currency Exchange Rate Risk (Excluding Life Funds Withheld Assets)

Many of our non-U.S. subsidiaries maintain both assets and liabilities in local currencies; therefore, foreign exchange risk is generally limited to net assets denominated in foreign currencies.

Foreign currency exchange rate gains and losses in our consolidated Statements of Income arise for accounting purposes when net assets or liabilities are denominated in foreign currencies that differ from the functional currency of those subsidiaries. While unrealized foreign exchange gains and losses on underwriting balances are reported in earnings, the offsetting unrealized gains and losses on invested assets are recorded as a separate component of shareholders' equity, to the extent that the asset currency does not match that entity's functional currency. This results in an accounting mismatch that will result in foreign exchange gains or losses in the consolidated statements of income depending on the movement in certain currencies. We have formed several branches with Euro and U.K. sterling functional currencies and continue to focus on attempting to limit exposure to foreign exchange risk.

Foreign currency exchange rate risk in general is reviewed as part of our risk management framework. Within the asset liability framework for the investment portfolio, we pursue a general policy of holding the assets and liabilities in the same currency and, as such, we are not generally exposed to the risks associated with foreign exchange movements within the investment portfolio, as currency impacts on the assets are generally matched by corresponding impacts on the related liabilities. However, locally-required capital levels are invested in local currencies in order to satisfy regulatory requirements and to support local insurance operations and are not matched by related liabilities. Foreign exchange contracts within the investment portfolio may be utilized to manage individual portfolio foreign exchange exposures, subject to investment management service providers' guidelines established by management. Where these contracts are not designated as specific hedges for financial reporting purposes, we record realized and unrealized gains and losses in income in the period in which they occur. These contracts generally have maturities of three months or less. We may also attempt to manage the foreign exchange volatility arising on certain transactions denominated in foreign currencies. These include, but are not limited to, premiums receivable, reinsurance contracts, claims payable and investments in subsidiaries.

The principal currencies creating our foreign exchange risk are the U.K. sterling, the Euro, the Swiss franc and the Canadian dollar. The following table provides more information on our net exposures to these principal foreign currencies at December 31, 2014 and 2013:

(Foreign Currency in Millions)	2014	2013
Euro	129.7	88.7
U.K. Sterling	139.4	47.3
Swiss Franc	155.7	107.9
Canadian Dollar	190.4	133.8

Subsequent Events

On January 9, 2015, the Company entered into contingent deliverable foreign exchange forward contracts with Morgan Stanley Capital Services LLC and Goldman Sachs International. The purpose of these is to mitigate risk of foreign currency exposure related to the pending Acquisition, and in general these transactions will terminate without any payments due by any of the parties if the Acquisition does not close on or before October 9, 2015.

Credit Risk (Excluding Life Funds Withheld Assets)

Credit risk relates to the uncertainty of an obligor's continued ability to make timely payments in accordance with the contractual terms of the instrument or contract. We are exposed to direct credit risk within our investment portfolio, through general counterparties, including customers and reinsurers, and through certain underwriting activities that include, but are not limited to, surety, workers' compensation, environmental and political risk and trade credit.

We have an established credit risk governance process delegated to the Credit Subcommittee of the Enterprise Risk Management Committee. The governance process is designed to ensure that transactions and activities, individually and in the aggregate, are carried out within established risk tolerances. This process also recognizes the potential for clash event risk (which covers a number of substantially similar claims against multiple policyholders) that could arise from credit events owing to the identified credit risk embedded in certain underwriting businesses, as well as our investment activities and reinsurance relationships. In particular, certain of our underwriting activities expose us to indirect credit risk in that profitability of certain strategies can correlate with credit events at the issuer, industry or country level. We manage these risks through established underwriting policies that operate in accordance with established limit and escalation frameworks.

To manage our exposure to credit risk, we have established a credit risk framework that establishes tolerances for credit risk at various levels of granularity (counterparty, industry, country and underwriting business) and tolerances for credit risk arising from certain clash events. Credit risk capacity is allocated across our businesses and functional areas and regular reporting and aggregation activities are carried out to ensure compliance with our credit risk framework and related tolerances. Credit risk arising from credit sensitive underwriting activities is also managed via our underwriting limit framework. We manage credit risk within the investment portfolio through our Authorities Framework and established investment credit policies, which address the quality of obligors and counterparties, industry limits, and diversification requirements. Our exposure to market credit spreads primarily relates to market price and cash flow variability associated with changes in credit spreads.

Credit Risk – Investment Portfolio (Excluding Life Funds Withheld Assets)

Credit risk in the investment portfolio is the exposure to adverse changes in the creditworthiness of individual investment holdings, issuers, groups of issuers, industries and countries. A widening of credit spreads will increase the net unrealized loss position, will increase losses associated with credit-based derivatives where we assume credit exposure, and, if issuer credit spreads increase significantly for an extended period of time or it is a period of increasing defaults, will also likely result in higher OTTI charges. All else held equal, credit spread tightening will reduce net investment income associated with new purchases of fixed maturities. In addition, market volatility can make it difficult to value certain of our securities if trading becomes less frequent. As such, valuations may include assumptions or estimates that may have significant period to period changes that could have a material adverse effect on our consolidated results of operations or financial condition. The credit spread duration in our fixed income portfolio was 3.5 years at December 31, 2014.

We manage credit risk in the investment portfolio, including fixed income, alternative and short-term investments, through the credit research performed primarily by the investment management service providers. The management of credit risk in the investment portfolio is integrated in our credit risk management governance framework and the management of credit exposures and concentrations within the investment portfolio is carried out in accordance with our risk policies, philosophies, appetites, limits and risk concentrations related to the investment portfolio. In the investment portfolio, we review on a regular basis our asset concentration, credit quality and adherence to our credit limit guidelines. Any issuer over its credit limits or experiencing financial difficulties, material credit quality deterioration or potentially subject to forthcoming credit quality deterioration is placed on a watch list for closer monitoring. Where appropriate, exposures are reduced or prevented from increasing.

The table below shows our aggregate fixed income portfolio by credit rating in percentage terms of our aggregate fixed income portfolio (consisting of corporate debt and U.S. Agency debt and related mortgage-backed securities having and including fixed maturities, short-term investments, cash and cash equivalents and net receivable/(payable) for investment sold/(purchased)) at December 31, 2014:

	Percentage of Aggregated Fixed Income Portfolio (1)(2)
AAA	44.1%
AA	20.4%
A	23.6%
BBB	8.9%
BB or Below	3.0%
NR	—%
Total	100.0%

____

(1) The credit ratings above were principally determined based on the weighted average rating of the individual securities from Standard & Poor's, Moody's Investors Service and Fitch Ratings (where available). The credit ratings for U.S. Agency debt and related mortgage-backed securities, whether with implicit or explicit government support, reflects the credit quality rating of the U.S. government for the purpose of these calculations.

(2) Excludes Life Funds Withheld Assets.

At December 31, 2014, the average credit quality of our aggregate fixed income investment portfolio was “ Aa3(AA-) " compared to “Aa3/AA-” at December 31, 2013. Our $10.2 billion portfolio of government and government related, agency, sovereign and cash holdings was rated "AA+", our $8.9 billion portfolio of corporates was rated “A", and our $7.0 billion structured securities portfolio was rated "AA+".

We are closely monitoring our corporate financial bond holdings given the events of the past six years. The table below summarizes our significant exposures (defined as bonds issued by financial institutions with an amortized cost in excess of $50.0 million) to corporate bonds of financial issuers including Covered Bonds held within our AFS investment portfolio holdings at December 31, 2014, representing both amortized cost and net unrealized gains (losses):

	December 31, 2014		
Issuer (by Global Ultimate Parent) (1)(2) *(U.S. dollars in millions)*	**Weighted Average Credit Quality (3)**	**Amortized Cost**	**Unrealized Gain/ (Loss)**
WELLS FARGO & COMPANY	A+	$ 173.4	$ 6.1
CITIGROUP INC.	A-	148.7	6.0
JPMORGAN CHASE & CO.	A	147.2	5.5
RABOBANK NEDERLAND NV	AA-	129.8	5.0
BANK OF AMERICA CORPORATION	BBB+	127.4	3.2
THE GOLDMAN SACHS GROUP, INC.	A-	112.9	6.2
WESTPAC BANKING CORPORATION	AA	88.1	3.3
THE PNC FINANCIAL SERVICES GROUP, INC.	A	84.7	1.4
UBS GROUP AG	AA	83.3	3.1
LLOYDS BANKING GROUP PLC	AA+	83.1	4.5
COMMONWEALTH BANK OF AUSTRALIA	AA+	81.2	2.3
THE BANK OF NOVA SCOTIA	AA	80.1	0.8
BERKSHIRE HATHAWAY INC.	AA-	79.7	2.2
MORGAN STANLEY	A-	78.6	1.4
HSBC HOLDINGS PLC	A+	76.0	1.2
BB&T CORPORATION	A	73.3	0.4
BNP PARIBAS	A+	73.1	1.6
U.S. BANCORP	A+	67.2	0.5
BANK OF MONTREAL	AA	67.0	0.9
NATIONAL AUSTRALIA BANK LIMITED	AA	66.2	2.2
ING GROEP N.V.	AA-	58.5	2.3
GOVERNMENT OF NETHERLANDS (ABN AMRO)	AAA	54.7	3.9
AMERICAN EXPRESS COMPANY	A	52.8	1.7
NATIONAL BANK OF CANADA	AA+	51.2	1.2

(1) Includes Covered Bonds.
(2) Excludes Life Funds Withheld Assets.
(3) The credit rating for each asset reflected above was principally determined based on the weighted average rating of the individual securities from Standard & Poor's, Moody's Investors Service and Fitch Ratings (where available). U.S. Agency debt and related mortgage-backed securities, whether with implicit or explicit government support, reflect the credit quality rating of the U.S. government for the purpose of these calculations.

At December 31, 2014, the top 10 corporate financial holdings, which exclude government guaranteed and government sponsored enterprises, represented approximately 4.5% of the aggregate fixed income portfolio and approximately 13.3% of all corporate holdings. The top 10 corporate bond holdings listed below represent the direct exposure as of December 31, 2014 to the corporations listed below, including their subsidiaries, and exclude any securitized, credit enhanced and collateralized asset or mortgage-backed securities, cash and cash equivalents, pooled notes and any over-the-counter (“OTC”) derivative counterparty exposures, if applicable, but does include Covered Bonds:

Top 10 Corporate Financial Holdings (1)(2)	Percentage of Aggregate Fixed Income Portfolio
WELLS FARGO & COMPANY	0.7%
CITIGROUP INC.	0.6%
JPMORGAN CHASE & CO.	0.6%
RABOBANK NEDERLAND NV	0.5%
BANK OF AMERICA CORPORATION	0.5%
THE GOLDMAN SACHS GROUP, INC.	0.4%
WESTPAC BANKING CORPORATION	0.3%
THE PNC FINANCIAL SERVICES GROUP, INC.	0.3%
UBS GROUP AG	0.3%
LLOYDS BANKING GROUP PLC	0.3%

____
(1) Corporate issuers include Covered Bonds.
(2) Excludes Life Funds Withheld Assets.

At December 31, 2014, the top 5 corporate sector exposures listed below represented 26.2% of the aggregate fixed income investment portfolio and 76.6% of all corporate holdings.

Top 5 Sector Exposures (1) *(U.S. dollars in millions)*		Carrying Value	Percentage of Aggregate Fixed Income Portfolio
Financials (2)	$	2,772.3	10.7%
Consumer, non-Cyclical		1,741.5	6.7%
Consumer, Cyclical		827.5	3.2%
Industrial		759.9	2.9%
Energy		708.7	2.7%
Total	$	6,809.9	26.2%

____
(1) Excludes Life Funds Withheld Assets.
(2) Government-guaranteed securities and Covered Bonds have been excluded from the above figures.

We also have exposure to credit risk associated with our mortgage-backed and asset-backed securities. The table below shows the breakdown at December 31, 2014 of the $7.0 billion structured securities portfolio, of which 85.5% is AAA rated:

(U.S. dollars in millions)		Carrying Value (1)	Percentage of Structured Portfolio
Agency RMBS	$	3,728.6	53.6%
Other ABS (2)		1,065.3	15.3%
CMBS		1,052.5	15.1%
Core CDO (non-ABS CDOs and CLOs)		692.0	9.9%
Non-Agency RMBS		427.4	6.1%
Total	$	6,965.8	100.0%

____
(1) Excludes Life Funds Withheld Assets
(2) Includes Covered Bonds.

Credit Risk – Other (Excluding Life Funds Withheld Assets)

Credit derivatives can be purchased within our investment portfolio. From time to time, we may purchase credit default swaps to hedge an existing position or concentration of holdings. The credit derivatives are recorded at fair value. For further details with respect to our exposure to credit derivatives, see Item 8, Note 16, “Derivative Instruments,” to the Consolidated Financial Statements included herein.

We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, alternatives and other investment funds and other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty. In addition, with respect to secured transactions, our credit risk may be exacerbated when the collateral held by us cannot be sold or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure that is due. We also have exposure to financial institutions in the form of unsecured debt instruments, derivative transactions, revolving credit facility and letter of credit commitments and equity investments. There can be no assurance that any such losses or

impairments to the carrying value of these assets would not materially and adversely affect our business and results of operations.

With regard to unpaid losses and loss expenses recoverable and reinsurance balances receivable, we have credit risk should any of our reinsurers be unable or unwilling to settle amounts due to us; however, these exposures are not marked to market. For further information relating to reinsurer credit risk, see Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Unpaid Losses and Loss Expenses Recoverable and Reinsurance Balances Receivable."

We are exposed to credit risk in the event of non-performance by the other parties to our derivative instruments in general; however, we do not anticipate non-performance. The difference between the notional principal amounts and the associated market value is our maximum credit exposure.

Equity Price Risk (Excluding Life Funds Withheld Assets)

Equity price risk is the potential loss arising from changes in the market value of equities. Our equity investment portfolio is exposed to equity price risk. At December 31, 2014, our equity portfolio was approximately $789.1 million as compared to $952.8 million at December 31, 2013. This excludes fixed income fund investments of $79.2 million and $87.4 million at December 31, 2014 and 2013, respectively, that generally do not have the risk characteristics of equity investments but are treated as equity investments under GAAP. At December 31, 2014 and 2013, our direct allocation to equity securities was 2.4% and 2.6%, respectively, of the total investment portfolio (including cash and cash equivalents, accrued investment income and net payable for investments purchased). We also estimate the equity risk embedded in certain alternative and private investments. Such estimates are derived from market exposures provided to us by certain individual fund investments and/or internal statistical analyses.

Other Market Risks (Excluding Life Funds Withheld Assets)

Our private investment portfolio is invested in limited partnerships and other entities that are not publicly traded. In addition to normal market risks, these positions may also be exposed to liquidity risk, risks related to distressed investments and risks specific to startup or small companies. At December 31, 2014, our exposure to private investments, excluding unfunded commitments, was $325.2 million, representing 1.1% of the total investment portfolio (including cash and cash equivalents, accrued investment income and net payable for investments purchased) compared to $268.7 million at December 31, 2013.

Our alternative investment portfolio, which is exposed to equity and credit risk as well as certain other market risks, had a total exposure of $1.7 billion representing approximately 5.6% of the total investment portfolio (including cash and cash equivalents, accrued investment income and net payable for investments purchased) at December 31, 2014, as compared to December 31, 2013, when we had a total exposure of $1.5 billion representing approximately 4.2% of the investment portfolio.

As noted above, we also invest in certain derivative positions that can be impacted by market value movements. For further details on derivative instruments, see Item 8, Note 16, "Derivative Instruments," to the Consolidated Financial Statements included herein.

Sensitivity and Value-at-Risk Analysis (Excluding Life Funds Withheld Assets)

The table below summarizes our assessment of the estimated impact on the value of our investment portfolio at December 31, 2014 associated with an immediate and hypothetical: +100 bps increase in interest rates, a -10% decline in equity markets, a +100 bps widening in spreads and a +10% widening in spreads. The table also reports the 95%, 1-year VaRs for our investment portfolios at December 31, 2014, excluding foreign exchange. The interest rate, spread risk, and VaR shown in the table below exclude Life Funds Withheld Assets.

The estimated results at December 31, 2014 below also do not include any risk contributions from our various operating affiliates (strategic, investment manager or financial operating affiliates) or certain other investments that are carried at amortized cost.

(U.S. dollars in millions)	Interest Rate Risk (1)	Equity Risk (2)	Absolute Spread Risk (3)	Relative Spread Risk (4)	VaR (5) (6)
Total Investment Portfolio (7)	**$ (986.0)**	**$ (188.1)**	**$ (961.2)**	**$ (76.1)**	**$ 575.6**
(I) Fixed Income Portfolio	(980.5)	—	(917.2)	(71.1)	591.0
(a) Cash & Short Term Investments	(26.3)	—	(6.8)	(0.4)	19.0
(b) Total Government Related	(405.7)	—	(257.7)	(9.5)	220.6
(c) Total Corporate Credit	(330.9)	—	(360.2)	(36.0)	248.2
(d) Total Structured Credit	(217.6)	—	(292.5)	(25.2)	128.0
(II) P&C Non-Fixed Income Portfolio	—	(188.1)	—	—	331.6
(e) Equity Portfolio	—	(80.6)	—	—	180.3
(f) Alternative Portfolio	—	(78.5)	—	—	134.3
(g) Private Investments	—	(29.0)	—	—	42.0
(h) Other	—	—	—	—	5.6

____

(1) The estimated impact on the fair value of our fixed income portfolio of an immediate hypothetical +100 bps adverse parallel shift in global bond curves.

(2) The estimated impact on the fair value of our investment portfolio of an immediate hypothetical -10% change in the value of equity exposures in our equity portfolio, certain equity-sensitive alternative investments and private equity investments. This includes our estimate of equity risk embedded in the alternatives and private investment portfolio with such estimates utilizing market exposures provided to us by certain individual fund investments, internal statistical analyses, and/or various assumptions regarding illiquidity and concentrations.

(3) The estimated impact on the fair value of our fixed income portfolio of an immediate hypothetical +100 basis point increase in all global government related, corporate and structured security spreads to which our fixed income portfolio is exposed. This excludes exposure to credit spreads in our alternative investments, private investments and counterparty exposure.

(4) The estimated impact on the fair value of our fixed income portfolio of an immediate hypothetical +10% increase in all global government related, corporate and structured security spreads to which our fixed income portfolio is exposed. This excludes exposure to credit spreads in our alternative investments, private investments and counterparty exposure.

(5) The VaR results are based on a 95% confidence interval, with a one-year holding period, excluding foreign exchange rate risk. Our investment portfolio VaR at December 31, 2014 is not necessarily indicative of future VaR levels as these are based on statistical estimates of possible price changes and, therefore, exclude other sources of investment return such as coupon and dividend income.

(6) The VaR results are the standalone VaRs, based on the prescribed methodology, for each component of our Total Investment Portfolio. The standalone VaRs of the individual components are non-additive, with the difference between the summation of the individual component VaRs and their respective aggregations being due to diversification benefits across the individual components. In the case of the VaR results for our Total Investment Portfolio, the results also include the impact associated with our Business and Other investments.

(7) Our Total Investment Portfolio also includes our Business and Other investments that do not form part of our Fixed Income Portfolio or Non-Fixed Income Portfolio. The individual results reported in the above table for our Total Investment Portfolio therefore represent the aggregate impact on our Fixed Income Portfolio, Non-Fixed Income Portfolio and the majority of our Other investments.

Stress Testing (Excluding Life Funds Withheld Assets)

VaR does not provide the means to estimate the magnitude of the loss in the 5% of occurrences when we expect the VaR level to be exceeded. To complement the VaR analysis based on normal market environments, we consider the impact on the investment portfolio in several different stress scenarios to analyze the effect of unusual market conditions. We establish certain stress scenarios that are applied to the actual investment portfolio. As these stress scenarios and estimated gains and losses are based on scenarios established by us, they will not necessarily reflect future stress events or gains and losses from such events. The results of the stress scenarios are reviewed on a regular basis to ensure they are appropriate, based on current shareholders' equity, market conditions and our total risk tolerance. It is important to note that when assessing the risk of our investment portfolio, we do not take into account either the value or risk associated with the liabilities arising from our operations.

Life Funds Withheld Assets

The table below shows the Life Funds Withheld Assets by credit rating in percentage terms at December 31, 2014:

	Percentage of Aggregated Fixed Income Portfolio (1)
AAA	16.9%
AA	28.3%
A	30.0%
BBB	24.5%
BB or Below	0.3%
Total	100.0%

____

(1) The credit ratings above were principally determined based on the weighted average rating of the individual securities from Standard & Poor's, Moody's Investors Service and Fitch Ratings (where available). The credit ratings for U.S. Agency debt and related mortgage-backed securities, whether with implicit or explicit government support, reflect the credit quality rating of the U.S. government for the purpose of these calculations.

At December 31, 2014, the average credit quality of the Life Funds Withheld Assets was “A+".

At December 31, 2014, the top 5 corporate sector exposures listed below represented 47.4% of the Life Funds Withheld Assets.

Top 5 Sector Exposures *(U.S. dollars in millions)*	**Carrying Value**	**Percentage of Aggregate Fixed Income Portfolio**
Financials (1)	$ 801.0	14.8%
Utilities	683.7	12.6%
Consumer, non-Cyclical	457.1	8.5%
Communications	364.6	6.7%
Industrial	261.1	4.8%
Total	$ 2,567.5	47.4%

____

(1) Government-guaranteed securities and Covered Bonds have been excluded from the above figures.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

	Page
Consolidated Balance Sheets at December 31, 2014 and 2013	121
Consolidated Statements of Income for the years ended December 31, 2014, 2013 and 2012	122
Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012	123
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2014, 2013 and 2012	124
Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012	125
Notes to Consolidated Financial Statements for the years ended December 31, 2014, 2013 and 2012	127

XL GROUP PLC
CONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31, 2014 AND 2013

(U.S. dollars in thousands, except share data)	2014	2013
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost: 2014, $27,728,771; 2013, $27,111,874)	$ 29,359,034	$ 27,500,136
Equity securities, at fair value (cost: 2014, $763,833; 2013, $903,201)	868,292	1,040,237
Short-term investments, at fair value (amortized cost: 2014, $257,221; 2013, $455,470)	256,727	456,288
Total investments available for sale	$ 30,484,053	$ 28,996,661
Fixed maturities, trading at fair value (amortized cost: 2014, $1,180; 2013, nil)	1,171	—
Fixed maturities, held to maturity at amortized cost (fair value: 2014, nil; 2013, $3,131,235)	—	2,858,695
Investments in affiliates	1,637,620	1,370,943
Other investments	1,248,439	1,164,630
Total investments	$ 33,371,283	$ 34,390,929
Cash and cash equivalents	2,521,814	1,800,832
Accrued investment income	315,964	346,809
Deferred acquisition costs	354,533	670,659
Ceded unearned premiums	952,525	788,871
Premiums receivable	2,473,736	2,612,602
Reinsurance balances receivable	131,519	118,885
Unpaid losses and loss expenses recoverable	3,429,368	3,435,230
Receivable from investments sold	92,762	144,765
Goodwill and other intangible assets	447,952	411,611
Deferred tax asset	204,491	237,884
Other assets	750,872	693,810
Total assets	$ 45,046,819	$ 45,652,887
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss expenses	$ 19,353,243	$ 20,481,065
Deposit liabilities	1,245,367	1,509,243
Future policy benefit reserves	4,707,199	4,803,816
Funds withheld on life retrocession arrangements (net of future policy benefit reserves recoverable: 2014, $4,265,678; 2013, nil)	1,155,016	—
Unearned premiums	3,973,132	3,846,526
Notes payable and debt	1,662,580	2,263,203
Reinsurance balances payable	493,230	302,399
Payable for investments purchased	42,291	60,162
Deferred tax liability	66,246	86,330
Other liabilities	912,748	950,845
Total liabilities	$ 33,611,052	$ 34,303,589
Commitments and Contingencies		
Shareholders' Equity:		
Ordinary shares, 999,990,000 authorized, par value $0.01; issued and outstanding (2014, 255,182,955; 2013, 278,253,308)	$ 2,552	$ 2,783
Additional paid in capital	7,359,102	7,994,100
Accumulated other comprehensive income	1,484,458	736,657
Retained earnings	1,187,640	1,264,093
Shareholders' equity attributable to XL Group plc	$ 10,033,752	$ 9,997,633
Non-controlling interest in equity of consolidated subsidiaries	1,402,015	1,351,665
Total shareholders' equity	$ 11,435,767	$ 11,349,298
Total liabilities and shareholders' equity	$ 45,046,819	$ 45,652,887

See accompanying Notes to Consolidated Financial Statements

XL GROUP PLC
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(U.S. dollars in thousands, except per share data)	2014	2013	2012
Revenues:			
Net premiums earned	$ 5,895,070	$ 6,309,521	$ 6,090,437
Net investment income:			
Net investment income - excluding Life Funds Withheld Assets	789,050	957,716	1,012,348
Net investment income - Life Funds Withheld Assets	129,575	—	—
Total net investment income	$ 918,625	$ 957,716	$ 1,012,348
Realized investment gains (losses):			
Net realized gains (losses) on investments sold - excluding Life Funds Withheld Assets	$ 158,733	$ 104,076	$ 94,807
Other-than-temporary impairments ("OTTI") on investments - excluding Life Funds Withheld Assets	(33,508)	(10,266)	(54,301)
OTTI on investments transferred to (from) other comprehensive income - excluding Life Funds Withheld Assets	(2,234)	(6,033)	(26,408)
Net realized gains (losses) on investments sold - Life Funds Withheld Assets	5,067	—	—
OTTI on investments - Life Funds Withheld Assets	(20,587)	—	—
Net unrealized gains (losses) on investments, trading securities ("Trading") - Life Funds Withheld Assets	(9)	—	—
Total net realized gains (losses) on investments, and net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets	$ 107,462	$ 87,777	$ 14,098
Net realized and unrealized gains (losses) on derivative instruments	29,886	7,798	5,221
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	(488,222)	—	—
Income (loss) from investment fund affiliates	95,816	138,391	58,504
Fee income and other	43,630	40,031	51,789
Total revenues	$ 6,602,267	$ 7,541,234	$ 7,232,397
Expenses:			
Net losses and loss expenses incurred	$ 3,258,393	$ 3,731,464	$ 3,765,482
Claims and policy benefits	242,963	465,702	486,195
Acquisition costs	738,118	909,323	913,492
Operating expenses	1,341,315	1,213,178	1,173,955
Foreign exchange (gains) losses	(37,568)	(28,243)	10,545
Loss on sale of life reinsurance subsidiary	666,423	—	—
Interest expense	134,106	155,462	172,204
Total expenses	$ 6,343,750	$ 6,446,886	$ 6,521,873
Income (loss) before income tax and income (loss) from operating affiliates	258,517	1,094,348	710,524
Income (loss) from operating affiliates	107,218	119,804	53,887
Provision (benefit) for income tax	96,897	77,505	34,028
Net income (loss)	$ 268,838	$ 1,136,647	$ 730,383
Non-controlling interests	80,498	76,731	79,255
Net income (loss) attributable to ordinary shareholders	$ 188,340	$ 1,059,916	$ 651,128
Weighted average ordinary shares and ordinary share equivalents outstanding, in thousands – basic	267,103	287,801	307,372
Weighted average ordinary shares and ordinary share equivalents outstanding, in thousands – diluted	271,527	292,069	310,282
Earnings (loss) per ordinary share and ordinary share equivalent – basic	$ 0.71	$ 3.68	$ 2.12
Earnings (loss) per ordinary share and ordinary share equivalent – diluted	$ 0.69	$ 3.63	$ 2.10

See accompanying Notes to Consolidated Financial Statements

XL GROUP PLC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(U.S. dollars in thousands)	2014	2013	2012
Net income (loss) attributable to ordinary shareholders	$ 188,340	$ 1,059,916	$ 651,128
Change in net unrealized gains (losses) on investments - excluding Life Funds Withheld Assets, net of tax	434,051	(750,755)	834,601
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 (losses) on investments - Life Funds Withheld Assets, net of tax	274,083	—	—
Change in net unrealized gains (losses) on affiliate and other investments, net of tax	35,143	26,637	46,162
Change in OTTI losses recognized in other comprehensive income, net of tax	13,143	32,181	67,280
Change in underfunded pension liability	(7,550)	7,653	(3,371)
Change in value of cash flow hedge	255	439	439
Foreign currency translation adjustments	(25,729)	(54,858)	(8,156)
Comprehensive income (loss)	$ 936,141	$ 276,553	$ 1,588,083

See accompanying Notes to Consolidated Financial Statements

XL GROUP PLC
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(U.S. dollars in thousands)	2014	2013	2012
Ordinary Shares:			
Balance – beginning of year	$ 2,783	$ 2,987	$ 3,156
Issuance of ordinary shares	12	13	10
Buybacks of ordinary shares	(247)	(226)	(183)
Exercise of stock options	4	9	4
Balance – end of year	$ 2,552	$ 2,783	$ 2,987
Additional Paid in Capital:			
Balance – beginning of year	$ 7,994,100	$ 8,584,752	$ 8,938,679
Issuance of ordinary shares	27	29	1,387
Buybacks of ordinary shares	(708,993)	(639,292)	(402,748)
Exercise of stock options	6,363	12,614	5,545
Share-based compensation expense	67,605	35,997	41,889
Balance – end of year	$ 7,359,102	$ 7,994,100	$ 8,584,752
Accumulated Other Comprehensive Income (Loss):			
Balance – beginning of year	$ 736,657	$ 1,520,020	$ 583,065
Change in net unrealized gains (losses) on investments - excluding Life Funds Withheld Assets, net of tax	434,051	(750,755)	834,601
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	(400,456)	(44,660)	—
Change in net unrealized gains (losses) on investments - Life Funds Withheld Assets, net of tax	274,083	—	—
Change in net unrealized gains (losses) on affiliate and other investments, net of tax	35,143	26,637	46,162
Change in OTTI losses recognized in other comprehensive income, net of tax	13,143	32,181	67,280
Change in underfunded pension liability	(7,550)	7,653	(3,371)
Change in value of cash flow hedge	255	439	439
Foreign currency translation adjustments	(25,729)	(54,858)	(8,156)
Balance – end of year	$ 1,484,458	$ 736,657	$ 1,520,020
Retained Earnings (Deficit):			
Balance – beginning of year	$ 1,264,093	$ 402,319	$ (113,244)
Net income (loss) attributable to ordinary shareholders	188,340	1,059,916	651,128
Dividends on ordinary shares	(172,080)	(162,044)	(135,565)
Buybacks of ordinary shares	(92,713)	(36,098)	—
Balance – end of year	$ 1,187,640	$ 1,264,093	$ 402,319
Non-controlling Interest in Equity of Consolidated Subsidiaries:			
Balance – beginning of year	$ 1,351,665	$ 1,346,325	$ 1,344,472
Non-controlling interests – contributions	48,261	7,747	1,500
Non-controlling interests – distributions	(1,666)	(37)	—
Non-controlling interests	3,755	(500)	113
Non-controlling interest share in change in accumulated other comprehensive income (loss)	—	(29)	240
Non-controlling interests - deconsolidation	—	(1,841)	—
Balance – end of year	$ 1,402,015	$ 1,351,665	$ 1,346,325
Total Shareholders' Equity	$ 11,435,767	$ 11,349,298	$ 11,856,403

See accompanying Notes to Consolidated Financial Statements

XL GROUP PLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(U.S. dollars in thousands)	2014	2013	2012
Cash flows provided by (used in) operating activities:			
Net income (loss)	$ 268,838	$ 1,136,647	$ 730,383
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Total net realized (gains) losses on investments and net unrealized (gains) losses on investments, Trading - Life Funds Withheld Assets	(107,462)	(87,777)	(14,098)
Net realized and unrealized (gains) losses on derivative instruments	(29,886)	(7,798)	(5,221)
Net realized and unrealized (gains) losses on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	488,222	—	—
Amortization of premiums (discounts) on fixed maturities	153,849	166,621	169,353
(Income) loss from investment and operating affiliates	(129,915)	(229,386)	(112,391)
Loss on sale of life reinsurance subsidiary	666,423	—	—
Share based compensation	81,287	46,489	47,472
Depreciation	56,118	56,229	57,280
Accretion of deposit liabilities	11,195	47,256	81,269
Changes in:			
Unpaid losses and loss expenses	(427,528)	(88,636)	(287,972)
Future policy benefit reserves	(229,204)	(164,923)	(187,400)
Funds withheld on life retrocession arrangements, net	(218,144)	—	—
Unearned premiums	253,396	65,279	182,963
Premiums receivable	15,248	(27,334)	(127,633)
Unpaid losses and loss expenses recoverable	(44,688)	(36,897)	305,675
Ceded unearned premiums	(191,242)	(196,674)	14,923
Reinsurance balances receivable	(17,736)	(60,317)	162,280
Deferred acquisition costs	303,998	8,532	(649)
Reinsurance balances payable	160,916	161,132	48,159
Deferred tax asset – net	(33,735)	(29,230)	(28,556)
Derivatives	42,187	(22,324)	7,252
Other assets	33,344	(26,945)	20,924
Other liabilities	(147,744)	60,331	50,342
Other	5,447	9,702	(58,249)
Total adjustments	$ 694,346	$ (356,670)	$ 325,723
Net cash provided by (used in) operating activities	$ 963,184	$ 779,977	$ 1,056,106
Cash flows provided by (used in) investing activities:			
Proceeds from sale of fixed maturities and short-term investments	$ 4,896,112	$ 4,341,429	$ 3,604,792
Proceeds from redemption of fixed maturities and short-term investments	3,601,793	4,008,333	4,579,651
Proceeds from sale of equity securities	571,410	245,538	221,617
Purchases of fixed maturities and short-term investments	(7,158,258)	(9,143,973)	(8,902,879)
Purchases of equity securities	(445,504)	(534,356)	(362,021)
Proceeds from sale of affiliates	240,785	190,954	133,375
Purchases of affiliates	(371,226)	(353,678)	(138,027)
Proceeds from sale of life reinsurance subsidiary	570,000	—	—
Other, net	(193,491)	47,891	(79,101)
Net cash provided by (used in) investing activities	$ 1,711,621	$ (1,197,862)	$ (942,593)

See accompanying Notes to Consolidated Financial Statements

XL GROUP PLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(U.S. dollars in thousands)	2014	2013	2012
Cash flows provided by (used in) financing activities:			
Proceeds from issuance of ordinary shares and exercise of stock options	$ 6,367	$ 12,623	$ 5,413
Buybacks of ordinary shares	(801,953)	(675,617)	(402,930)
Dividends paid on ordinary shares	(169,620)	(160,155)	(134,799)
Distributions to non-controlling interests	(78,465)	(77,670)	(78,987)
Contributions from non-controlling interests	48,261	7,747	1,500
Proceeds from issuance of debt	—	592,615	—
Repayment of debt	(600,000)	—	(600,000)
Deposit liabilities	(268,298)	(94,386)	(134,950)
Net cash provided by (used in) financing activities	$ (1,863,708)	$ (394,843)	$ (1,344,753)
Effects of exchange rate changes on foreign currency cash	(90,115)	(4,818)	24,493
Increase (decrease) in cash and cash equivalents	$ 720,982	$ (817,546)	$ (1,206,747)
Cash and cash equivalents – beginning of period	1,800,832	2,618,378	3,825,125
Cash and cash equivalents – end of period	$ 2,521,814	$ 1,800,832	$ 2,618,378
Net taxes paid	$ 20,168	$ 96,469	$ 34,465
Interest paid on notes payable and debt	$ 121,285	$ 97,125	$ 116,689

See accompanying Notes to Consolidated Financial Statements

1. General

XL Group plc, through its operating subsidiaries (collectively the "Company" or "XL"), is a leading provider of insurance and reinsurance coverages to industrial, commercial and professional firms, insurance companies and other enterprises on a worldwide basis. The Company and its various subsidiaries operate globally in 25 countries, through the Company's two business segments: Insurance and Reinsurance. These segments are further discussed in Note 5, "Segment Information."

For periods prior to July 1, 2010, unless the context otherwise indicates, references herein to the "Company" are to, and these financial statements include the accounts of, XLIT Ltd. (formerly, XL Capital Ltd), a Cayman Islands exempted company ("XL-Cayman"), and its consolidated subsidiaries. For periods subsequent to July 1, 2010, unless the context otherwise indicates, references herein to the "Company" are to, and these financial statements include the accounts of, XL Group plc, an Irish public limited company ("XL-Ireland"), and its consolidated subsidiaries.

On July 1, 2010, XL-Ireland and XL-Cayman completed a redomestication transaction in which all of the ordinary shares of XL-Cayman were exchanged for all of the ordinary shares of XL-Ireland (the "Redomestication"). As a result, XL-Cayman became a wholly owned subsidiary of XL-Ireland. On July 23, 2010, the Irish High Court approved XL-Ireland's creation of distributable reserves, subject to the completion of certain formalities under Irish Company law. These formalities were completed in early August 2010.

2. Significant Accounting Policies

(a) Basis of Preparation and Consolidation

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 the 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;
- valuation and other-than-temporary impairments of investments;
- income taxes;
- reinsurance premium estimates; and
- goodwill carrying value.

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.

(b) 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.

(c) Total Investments

Investments - Available For Sale

Investments that are considered available for sale (comprised of 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.

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. The pricing services use market approaches to 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. 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. 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. 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.

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.

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).

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.

Changes in the value of investments available for sale are reflected as unrealized gains or losses on investments, and are included in "accumulated other comprehensive income (loss)", on a net of tax basis.

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

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, "Sale of Life Reinsurance Subsidiary," 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 6, "Investments."

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

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 classified as either available for sale or trading. 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, "Sale of Life Reinsurance Subsidiary," 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.

Investments 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 (loss)." 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.

Overseas deposits include investments in private funds related to Lloyd's syndicates in which the underlying instruments are primarily fixed maturities. The funds themselves do not trade on an exchange and therefore are not included within available for sale securities. Also included in overseas deposits are restricted balances held by Lloyd's syndicates for solvency purposes which are primarily invested in cash and cash equivalents. Given the restricted nature of these balances, they are included in other investments on the balance sheets. Each of these investment types is considered a Level 2 valuation.

The Company historically participated in structured transactions that included cash loans supporting project finance transactions and providing liquidity facility financing to a structured project deal in 2009, and the Company also invested in a payment obligation with an insurance company. These transactions are carried at amortized cost. For further details see Note 4, "Fair Value Measurements," and Note 8, "Other Investments."

(d) Premiums and Acquisition Costs

Insurance 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. Life and annuity premiums from long duration contracts that do not subject the Company to risks arising from policyholder mortality or morbidity are accounted for as investment contracts and presented within deposit liabilities.

The Company has periodically written retroactive loss portfolio transfer contracts. These contracts are evaluated to determine whether they meet the established criteria for reinsurance accounting, and, if so, at inception, written premiums are fully earned and corresponding losses and loss expense recognized. The contracts can cause significant variances in gross premiums written, net premiums written, net premiums earned, and net incurred losses in the years in which they are written. Reinsurance contracts sold not meeting the established criteria for reinsurance accounting are recorded using the deposit method.

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 during which the premiums are earned. Acquisition costs are shown net of contractual 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.

(e) 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.

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. We 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.

(f) Fee Income and Other

Fee income and other includes fees received for insurance 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.

(g) 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 6, "Investments."

(h) Derivative Instruments

The Company recognizes all derivatives as either assets or liabilities in the balance sheets and measures those instruments at fair value. Except for the embedded derivative associated with the life retrocession agreement discussed above within (c) "Investments Related to Life Retrocession Arrangements written on a Funds Withheld Basis", the changes in fair value of derivatives are shown in the consolidated statements 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 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.

Cash Flow Hedges

Changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge are recorded in accumulated other comprehensive income ("AOCI") and are reclassified into earnings when the variability of the cash flow of the hedged item impacts earnings. Gains and losses on derivative contracts that are reclassified from AOCI to current period earnings are included in the line item in the consolidated statements of operations in which the cash flows of the hedged item are recorded. Any hedge ineffectiveness is recorded immediately in current period earnings as "net realized and unrealized gains and losses on derivative instruments." Periodic derivative net coupon settlements are recorded in net investment income. The Company may designate cash flow hedging relationships where interest rate swaps are used to mitigate interest rate risk associated with anticipated issuances of debt or other forecasted transactions.

Hedges of the Net Investment in a Foreign Operation

Changes in fair value of a derivative used as a hedge of a net investment in a foreign operation, to the extent effective as a hedge, are recorded in the foreign currency translation adjustments account within AOCI. Cumulative changes in fair value recorded in AOCI are reclassified into earnings upon the sale or complete or substantially complete liquidation of the foreign

entity. Any hedge ineffectiveness is recorded immediately in current period earnings as “net realized and unrealized gains and losses on derivative instruments.”

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 dedesignated 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.

(i) 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) 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 (loss).”

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.

(k) Goodwill, Intangibles and Other Long-Lived Assets

The Company has recorded goodwill in connection with various acquisitions in prior years. Goodwill represents the excess of the purchase price over the fair value of net assets acquired. In accordance with GAAP authoritative guidance for goodwill and other intangible assets, the Company tests goodwill for potential impairment annually as of June 30, and between annual tests if an event occurs or circumstances change that may indicate that potential exists for the fair value of a reporting unit to be reduced to a level below its carrying amount. For further details on the factors considered in the goodwill impairment evaluation see Note 9, “Goodwill and Other Intangible Assets.”

The Company's indefinite lived intangible assets consist primarily of acquired insurance and reinsurance licenses. These assets are deemed to have indefinite useful lives and are therefore not subject to amortization. In accordance with GAAP authoritative guidance for goodwill and other intangible assets, the Company tests non-amortized intangible assets for potential impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Pursuant to the authoritative guidance, if the carrying value of a non-amortized intangible asset is in excess of its fair value, the asset must be written down to its fair value through the recognition of an impairment charge to earnings.

All of the Company's depreciable or amortizable long-lived assets such as premises, equipment, agency relationships, and acquired or internally-developed software, are carried at net book value, and are depreciated or amortized on a straight-line basis over their estimated useful lives. The amortization periods approximate the period over which the Company expects to generate future net cash inflows from the use of these assets. All of these assets are subject to impairment testing in accordance with authoritative guidance for the impairment or disposal of long-lived assets when events or conditions indicate that the carrying value of an asset may not be fully recoverable from future cash flows.

(l) 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 18, "Variable Interest Entities," for further discussion of the Company's interests in VIEs.

(m) 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 18, "Variable Interest Entities," and Note 20, "Share Capital," for further discussion of non-controlling interests in the Company.

(n) 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 U.K. 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.

(o) 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.

(p) 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.

(q) 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 of the relevant 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 as a component of 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.

(r) Stock Plans

At December 31, 2014, the Company had several stock-based performance incentive programs, which are described more fully in Note 20, “Share Capital.” Stock-based compensation issued under these plans generally has a life of not longer than ten years and vests as set forth at the time of grant. Awards currently vest annually over three or four years from the date of grant. The Company recognizes compensation costs for stock-based awards on a straight-line basis over the requisite service period (usually the vesting period) for each award.

Share-based payments to employees, including grants of employee stock options, are recognized in the financial statements over the vesting period based on their grant date fair values.

Authoritative guidance requires that compensation costs be recognized for unvested stock-based compensation awards over the period through the date that the employee is no longer required to provide future services to earn the award, rather than

over the explicit service period. Accordingly, the Company follows a policy of recognizing compensation cost to coincide with the date that the employee is eligible to retire, rather than the actual retirement date, for all stock-based compensation granted.

(s) Per Share Data

Basic earnings per ordinary share is based on weighted average ordinary shares outstanding and excludes any dilutive effects of options and convertible securities. Diluted earnings per ordinary share assumes the exercise of all dilutive stock options and conversion of convertible securities where the contingency for conversion has occurred or been satisfied.

(t) Recent Accounting Pronouncements

In May 2011, the FASB issued an accounting standards update to amend existing requirements for fair value measurements and disclosures. The guidance expands the disclosure requirements around fair value measurements categorized in Level 3 of the fair value hierarchy, requiring quantitative and qualitative information to be disclosed related to: (1) the valuation processes used, (2) the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, and (3) use of a nonfinancial asset in a way that differs from the asset's highest and best use. The guidance requires disclosure of the level in the fair value hierarchy of items that are not measured at fair value, but whose fair value must be disclosed. It also clarifies and expands upon existing requirements for fair value measurements of financial assets and liabilities, as well as instruments classified in shareholders' equity. The Company adopted this guidance from January 1, 2012; however, it impacted disclosure only and did not have an impact on the Company's financial condition, results of operations or cash flows. See Note 4, "Fair Value Measurements," for these updated disclosures.

In June 2011, the FASB issued an accounting standards update concerning the presentation of comprehensive income in financial statements. This guidance allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Under both options, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This guidance eliminates the option to present the components of other comprehensive income only as part of the statement of changes in shareholders' equity. The guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The Company adopted this guidance from January 1, 2012; however, it did not have an impact on the Company's disclosure, financial condition, results of operations or cash flows. In February 2013, the FASB issued an additional accounting standards update related to this topic that requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. The Company adopted this additional guidance prospectively from January 1, 2013. As this guidance is disclosure-related only and does not change the current requirements for reporting net income or other comprehensive income in financial statements, its adoption did not impact the Company's financial condition, results of operations or cash flows.

In September 2011, the FASB issued an accounting standards update to simplify how entities test goodwill for impairment, by allowing an entity the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting entity is less than its carrying amount, as a basis for determining whether it is necessary to perform the two-step goodwill impairment test required under GAAP accounting rules. After assessing the circumstances that should be considered in making the qualitative assessment, if an entity determines that the fair value of a reporting unit as compared to its carrying value meets the threshold, then performing the two-step impairment step is unnecessary. In other circumstances, performance of the two-step test is required. The guidance also eliminates the option for an entity to carry forward its detailed calculation of a reporting unit's fair value in certain situations. The Company adopted this guidance from January 1, 2012. It did not have an impact on the Company's financial condition, results of operations, or cash flows.

In December 2011, the FASB issued an accounting standards update requiring additional disclosures about financial instruments and derivatives that are either: (1) offset for balance sheet presentation purposes or (2) subject to an enforceable master netting arrangement or similar arrangement, regardless of whether they are offset for balance sheet presentation purposes. In January 2013, the FASB issued an additional accounting standards update related to this topic clarifying that the disclosures would apply only to derivatives, repurchase and reverse repurchase agreements, and securities borrowing and securities lending transactions, each to the extent that they met one of the two conditions provided in the initial accounting standards update. This guidance was adopted from January 1, 2013, on a retrospective basis for all fiscal periods presented. As this guidance is disclosure-related only and does not amend existing balance sheet offsetting guidance, its adoption did not impact the Company's financial condition, results of operations or cash flows.

In July 2012, the FASB issued an accounting standards update to simplify how entities test indefinite-lived intangible assets for impairment. Under this new guidance, an entity is allowed the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. After assessing the circumstances that should be considered in making the qualitative assessment, if an entity determines that the fair value of the intangible asset as compared to its carrying value meets the threshold, it may bypass the existing requirements to perform a full quantitative impairment test on the intangible asset, a test which otherwise would have to be performed annually, at a minimum. The guidance was effective during the fourth quarter of 2012. The Company adopted this guidance from January 1, 2013. It did not have an impact on the Company's 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 adopted this guidance from January 1, 2014. It did not have an impact on the Company's financial condition, results of operations or cash flows.

In April 2014, the FASB issued an accounting standards update intended to improve financial reporting by changing key criteria used to evaluate whether disposal transactions meet the definition of discontinued operations. Under the guidance only those disposals of components of an entity - either by sale or otherwise - which represent strategic shifts that have, or will have, a major effect on an entity's operations and financial results would qualify for reporting as discontinued operations. Disposals that are considered to be routine in nature can no longer be reported as discontinued operations. However, a disposal may now qualify for discontinued operations reporting even if the disposed component's operations and cash flows are not eliminated from on-going operations of the disposing entity, or if post-disposal, the disposing entity still has significant continuing involvement in the component's operations. The standard also establishes both additional disclosure requirements and expanded disclosures regarding on-going involvement an entity may have with a discontinued operation after its disposal. The guidance is effective prospectively for all public company disposals (or component reclassifications to held-for-sale) that occur within annual periods beginning on or after December 15, 2014. Early adoption is permitted, but only for disposals (or component reclassifications to held-for-sale) that have not been reported in financial statements issued or available for issuance prior to the effective date. This guidance is not expected to have a significant impact on the Company's financial condition, results of operations or cash flows.

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 November 2014, the FASB issued an accounting standards update which provides an acquired entity with the option to reflect assets and liabilities using its acquirer's accounting and reporting basis ("pushdown accounting") within its own separate financial statements. Under this new guidance, an acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in control event occurs (on a case by case basis if multiple). If the entity elects to apply pushdown accounting, it should disclose information that enables users of the financial statements to evaluate the effect of pushdown accounting. If pushdown accounting is not applied in the initial reporting period, an acquired entity will have the option to elect to apply it in a subsequent reporting period, however, such an election should be considered a change in

accounting principle. Once pushdown accounting is elected, that election is irrevocable. The guidance was effective upon issuance. Its adoption did not have an impact on the financial condition, results of operations or cash flows of the Company or its subsidiaries for the year ended December 31, 2014.

3. Sale of Life Reinsurance Subsidiary

On May 1, 2014, a wholly owned subsidiary of the Company, XL Insurance (Bermuda) Ltd (“XLIB”), entered into a sale and purchase agreement with GreyCastle Holdings Ltd. (“GreyCastle”) providing for the sale of 100% of the common shares of XLIB's wholly-owned subsidiary, XL Life Reinsurance (SAC) Ltd ("XLLR"), (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").

The Run-Off Life Operations business, including the business subject to the transaction, was previously reported within the Company’s Life operations segment. Subsequent to the transaction, the Company no longer considers the Life operations to be a separate operating segment, and the results of the Run-Off Life Operations are reported within “Corporate and Other.” See Note 5, "Segment Information" for further information. In addition, certain securities within fixed maturities were reclassified from held to maturity to available for sale in conjunction with this transaction. See Note 6, "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 XL ceding companies and applicable laws and regulations. All of the investment results associated with the Life Funds Withheld Assets ultimately accrue to GCLR. Because the Company no longer shares in the risks and rewards of the underlying performance of the supporting invested assets, disclosures within the financial statement notes included herein separate the Life Funds Withheld Assets from the rest of the Company's investments.

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 retained approximately $0.4 billion of these reserves, and recorded a reinsurance recoverable from GCLR of $4.8 billion. Under the terms of the transaction, the Company continues to own, on a funds withheld basis, assets supporting the Life Retro Arrangements consisting of cash, fixed maturity securities and accrued interest. Based upon the right of offset, the funds withheld liability owing to GCLR is recorded net of future policy benefit reserves recoverable, and is included within “Funds withheld on life retrocession arrangements (net of future policy benefit reserves recoverable)" on the consolidated balance sheets. The transaction resulted in an overall after-tax U.S. GAAP net loss of $621.3 million.

At December 31, 2014, gross future policy benefit reserves relating to the Run-Off Life Operations were approximately $4.7 billion, of which the Company retained approximately $0.4 billion, after consideration of its future policy benefit reserves recoverable from GCLR of $4.3 billion. The net funds withheld liability included within “Funds withheld on life retrocession arrangements, net of future policy benefit reserves recoverable" was $1.2 billion. The Company continued to own $5.4 billion of assets supporting the Life Retro Arrangements. See Note 14, “Funds Withheld on Life Retrocession Arrangements,” for further 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	**May 30 to December 31,**
(U.S. dollars in thousands)	**2014**
Underwriting profit (loss) (1)	$ 11,649
Net investment income - Life Funds Withheld Assets	129,575
Net realized gains (losses) on investments sold - Life Funds Withheld Assets	5,067
Net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets	(9)
OTTI on investments - Life Funds Withheld Assets	(20,587)
Exchange (gains) losses	10,099
Other income and expenses	(1,610)
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	(488,222)
Net income (loss)	$ (354,038)
Change in net unrealized gains (losses) on investments - Life Funds Withheld Assets, net of tax	274,083
Change in adjustments related to future policy benefit reserves, net of tax	74,009
Change in cumulative translation adjustment - Life Funds Withheld Assets, net of tax	17,595
Total changes to other comprehensive income as a result of Life Retro Arrangements	$ 365,687
Comprehensive income (loss) (1)	$ 11,649

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

As shown in the table above, although the Company's net income (loss) is subject to variability related to the Life Retro Arrangements, there is no recurring net impact on the Company's future comprehensive income in any period. The life retrocession embedded derivative value includes the interest income, unrealized gains and losses, and realized gains and losses from sales on the Life Funds Withheld Assets subsequent to May 30, 2014.

4. Fair Value Measurements

(a) Fair Value Summary

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

December 31, 2014 *(U.S. dollars in thousands)*	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**	**Collateral and Counterparty Netting**	**Balance at December 31, 2014**
Assets					
Fixed maturities - Available for Sale ("AFS") - Excluding Life Funds Withheld Assets					
U.S. Government and Government - Related/Supported	$ —	$ 2,171,953	$ —	$ —	$ 2,171,953
Corporate (1)	—	8,772,479	5,894	—	8,778,373
Residential mortgage-backed securities – Agency ("RMBS - Agency")	—	3,726,666	1,910	—	3,728,576
Residential mortgage-backed securities – Non-Agency ("RMBS - Non-Agency")	—	427,351	—	—	427,351
Commercial mortgage-backed securities ("CMBS")	—	1,052,544	—	—	1,052,544
Collateralized debt obligations ("CDO")	—	4,076	687,958	—	692,034
Other asset-backed securities (1)	—	1,060,005	5,288	—	1,065,293
U.S. States and political subdivisions of the States	—	2,021,272	—	—	2,021,272
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	—	4,240,073	—	—	4,240,073
Total fixed maturities - AFS - Excluding Life Funds Withheld Assets, at fair value	$ —	$ 23,476,419	$ 701,050	$ —	$ 24,177,469
Equity securities, at fair value	502,284	366,008	—	—	868,292
Short-term investments, at fair value (1)(2)	—	256,727	—	—	256,727
Total investments AFS - Excluding Life Funds Withheld Assets	$ 502,284	$ 24,099,154	$ 701,050	$ —	$ 25,302,488
Fixed maturities - AFS - Life Funds Withheld Assets					
U.S. Government and Government - Related/Supported	—	18,724	—	—	18,724
Corporate (1)	—	2,817,980	—	—	2,817,980
RMBS - Agency	—	3,782	—	—	3,782
RMBS - Non-Agency	—	85,335	—	—	85,335
CMBS	—	193,167	—	—	193,167
Other asset-backed securities	—	273,541	—	—	273,541
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	—	1,789,036	—	—	1,789,036
Total fixed maturities - AFS - Life Funds Withheld Assets, at fair value	—	5,181,565	—	—	5,181,565
Total investments - AFS, at fair value	502,284	29,280,719	701,050	—	30,484,053
Fixed maturities - Trading					
Corporate (1)	—	1,171	—	—	1,171
Total fixed maturities - Trading, at fair value	—	1,171	—	—	1,171
Cash equivalents (3)	1,103,877	397,955	—	—	1,501,832
Cash equivalents - Life Funds Withheld Assets	460	132,738	—	—	133,198
Other investments (4)	—	708,974	185,083	—	894,057
Other assets (5)	—	122,996	13,663	(696)	135,963
Total assets accounted for at fair value	$ 1,606,621	$ 30,644,553	$ 899,796	$ (696)	$ 33,150,274
Liabilities					
Funds withheld on life retrocession arrangements (net of future policy benefit reserves recoverable) (6)	$ —	$ 450,831	$ —	$ —	$ 450,831
Financial instruments sold, but not yet purchased (7)	4,737	25,669	—	—	30,406
Other liabilities (5)	—	7,757	23,427	(696)	30,488
Total liabilities accounted for at fair value	$ 4,737	$ 484,257	$ 23,427	$ (696)	$ 511,725

December 31, 2013 (U.S. dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Collateral and Counterparty Netting	Balance at December 31, 2013
Assets					
U.S. Government and Government - Related/Supported	$ —	$ 2,501,851	$ —	$ —	$ 2,501,851
Corporate (1)	—	11,094,257	31,573	—	11,125,830
RMBS – Agency	—	3,535,649	10,473	—	3,546,122
RMBS – Non-Agency	—	398,759	9	—	398,768
CMBS	—	1,234,262	12,533	—	1,246,795
CDO	—	7,060	710,253	—	717,313
Other asset-backed securities (1)	—	1,230,227	11,877	—	1,242,104
U.S. States and political subdivisions of the States	—	1,845,812	—	—	1,845,812
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	—	4,875,541	—	—	4,875,541
Total fixed maturities, at fair value	$ —	$ 26,723,418	$ 776,718	$ —	$ 27,500,136
Equity securities, at fair value	540,331	499,906	—	—	1,040,237
Short-term investments, at fair value (1)(2)	—	454,273	2,015	—	456,288
Total investments available for sale	$ 540,331	$ 27,677,597	$ 778,733	$ —	$ 28,996,661
Cash equivalents (3)	834,514	226,636	—	—	1,061,150
Other investments (4)	—	757,110	113,472	—	870,582
Other assets (5)	—	27,487	—	(1,342)	26,145
Total assets accounted for at fair value	$ 1,374,845	$ 28,688,830	$ 892,205	$ (1,342)	$ 30,954,538
Liabilities					
Financial instruments sold, but not yet purchased (7)	$ —	$ 28,861	$ —	$ —	$ 28,861
Other liabilities (5)	—	76,375	29,110	(1,342)	104,143
Total liabilities accounted for at fair value	$ —	$ 105,236	$ 29,110	$ (1,342)	$ 133,004

____

(1) Included are certain medium term notes supported primarily by pools of European investment grade credit with varying degrees of leverage. The notes had a fair value of $79.9 million and $154.6 million and an amortized cost of $68.4 million and $147.7 million at December 31, 2014 and December 31, 2013, respectively. These notes allow the investor to participate in cash flows of the underlying bonds including certain residual values, which could serve to either decrease or increase the ultimate values of these notes.
(2) Short-term investments consist primarily of Corporate securities and U.S. and Non-U.S. Government and Government-Related/ Supported securities.
(3) Cash equivalents balances subject to fair value measurement include certificates of deposit and money market funds. Operating cash balances are not subject to recurring fair value measurement guidance.
(4) The Other investments balance excludes certain structured transactions including certain investments in project finance transactions, a payment obligation and liquidity financing provided to a structured credit vehicle as a part of a third party medium term note facility. These investments, which totaled $354.4 million at December 31, 2014 and $294.0 million at December 31, 2013, are carried at amortized cost. For further information, see Note 8, “Other Investments.”
(5) Other assets and other liabilities include derivative instruments. The derivative balances included in each category are reported on a gross basis by level with a netting adjustment presented separately in the Collateral and Counterparty Netting column. The fair values of the individual derivative contracts are reported gross in their respective levels based on the fair value hierarchy. For further details regarding derivative fair values and associated collateral received or paid see Note 16, “Derivative Instruments."
(6) Funds withheld on life retrocession arrangements (net of future policy benefit reserves recoverable) include balances related to the life retrocession embedded derivative, under which all investment results associated with the Life Funds Withheld Assets related the Life Retro Arrangements described in Note 3, "Sale of Life Reinsurance Subsidiary", accrue to the benefit of GCLR.
(7) Financial instruments sold, but not yet purchased, represent “short sales” and are included within “Payable for investments purchased” on the balance sheets.

(b) Level 3 Assets and Liabilities

The tables below present additional information about assets and liabilities measured at fair value on a recurring basis and for which Level 3 inputs were utilized to determine fair value. The tables present a reconciliation of the beginning and ending balances for the years 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.

	Level 3 Assets and Liabilities – Year Ended December 31, 2014				
(U.S. dollars in thousands)	**Corporate**	**RMBS – Agency**	**RMBS – Non Agency**	**CMBS**	**CDO**
Balance, beginning of period	$ 31,573	$ 10,473	$ 9	$ 12,533	$ 710,253
Realized gains (losses)	199	5	1	3	3,781
Movement in unrealized gains (losses)	(128)	(18)	1	(3)	11,604
Purchases and issuances	3,759	120	—	1,376	185,710
Sales	—	—	—	—	(48,313)
Settlements	(6,543)	(3,205)	(11)	(12,533)	(175,077)
Transfers into Level 3	766	—	—	—	—
Transfers out of Level 3	(23,732)	(5,465)	—	(1,376)	—
Fixed maturities to short-term investments classification change	—	—	—	—	—
Balance, end of period	$ 5,894	$ 1,910	$ —	$ —	$ 687,958
Movement in total gains (losses) above relating to instruments still held at the reporting date	$ 60	$ (12)	$ —	$ —	$ 14,432

	Level 3 Assets and Liabilities – Year Ended December 31, 2014				
(U.S. dollars in thousands)	**Other asset-backed securities**	**Non-US Sovereign Government, Provincial, Supranational and Government Related/Supported**	**Short-term investments**	**Other investments**	**Derivative Contracts – Net**
Balance, beginning of period	$ 11,877	$ —	$ 2,015	$ 113,472	$ (29,110)
Realized gains (losses)	(7)	—	—	12,676	—
Movement in unrealized gains (losses)	65	—	(15)	538	19,346
Purchases and issuances	5,182	—	—	59,401	—
Sales	—	—	—	—	—
Settlements	(5,705)	—	(2,000)	(25,498)	—
Transfers into Level 3	—	—	—	24,494	—
Transfers out of Level 3	(6,124)	—	—		—
Fixed maturities to short-term investments classification change	—	—	—	—	—
Balance, end of period	$ 5,288	$ —	$ —	$ 185,083	$ (9,764)
Movement in total gains (losses) above relating to instruments still held at the reporting date	$ 57	$ —	$ —	$ 13,212	$ 19,346

	Level 3 Assets and Liabilities – Year Ended December 31, 2013				
(U.S. dollars in thousands)	Corporate	RMBS – Agency	RMBS – Non Agency	CMBS	CDO
Balance, beginning of period	$ 30,098	$ 32,005	$ 116	$ 25,347	$ 701,736
Realized gains (losses)	4	10	(1)	3	4,364
Movement in unrealized gains (losses)	766	(23)	(1)	(68)	37,916
Purchases and issuances	10,691	—	3,326	—	136,035
Sales	(71)	(535)	—	—	(48,226)
Settlements	(7,274)	(3,349)	(105)	(12,749)	(121,572)
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	(2,641)	(17,635)	(3,326)	—	—
Fixed maturities to short-term investments classification change	—	—	—	—	—
Balance, end of period	$ 31,573	$ 10,473	$ 9	$ 12,533	$ 710,253
Movement in total gains (losses) above relating to instruments still held at the reporting date	$ 845	$ (27)	$ (1)	$ (65)	$ 39,259

	Level 3 Assets and Liabilities – Year Ended December 31, 2013				
(U.S. dollars in thousands)	Other asset-backed securities	Non-US Sovereign Government, Provincial, Supranational and Government Related/Supported	Short-term investments	Other investments	Derivative Contracts – Net
Balance, beginning of period	$ 18,128	$ —	$ —	$ 115,272	$ (36,247)
Realized gains (losses)	848	—	(17)	7,545	—
Movement in unrealized gains (losses)	1,691	—	15	4,095	7,137
Purchases and issuances	21,686	—	2,017	18,340	—
Sales	(15,711)	—	—	(1,237)	—
Settlements	(8,259)	—	—	(30,543)	—
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	(6,506)	—	—	—	—
Fixed maturities to short-term investments classification change	—	—	—	—	—
Balance, end of period	$ 11,877	$ —	$ 2,015	$ 113,472	$ (29,110)
Movement in total gains (losses) above relating to instruments still held at the reporting date	$ (515)	$ —	$ (2)	$ 10,750	$ 7,137

(c) Fixed maturities and short-term investments

The Company's Level 3 assets consist primarily of CDOs, 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 CDOs from third party investment managers who perform independent verifications of these valuations using pricing matrices based upon information gathered by market traders. In addition, for the majority of these securities, the Company compares the broker quotes to independent valuations obtained from third party pricing vendors, which may also consist of broker quotes, to assess if the prices received represent a reasonable estimate of the fair value. Although the Company does not have access to the specific unobservable inputs that may have been used in the fair value measurements of the CDO securities provided by brokers, we would expect that the significant inputs considered are prepayment rates, probability of default, loss severity in the event of default, recovery rates, liquidity 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 and a directionally opposite change in the assumption used for prepayment rates.

The remainder of the Level 3 assets relate primarily to private investment funds and certain derivative positions as described below.

(d) Other investments

Included within the Other investments component of the Company's Level 3 valuations are private investments and alternative fund investments where the Company is not deemed to have significant influence over the investee. The fair value of these investments is based upon net asset values received from the investment manager or general partner of the respective entity. The nature of the underlying investments held by the investee that form the basis of the net asset value include assets such as private business ventures and are such that significant Level 3 inputs are utilized in the determination of the individual underlying holding values and, accordingly, the fair value of the Company's investment in each entity is classified within Level 3. The Company has not adjusted the net asset values received; however, management incorporates factors such as the most recent financial information received, annual audited financial statements and the values at which capital transactions with the investee take place when applying judgment regarding whether any adjustments should be made to the net asset value in recording the fair value of each position. Investments in alternative funds included in Other investments utilize strategies including arbitrage, directional, event driven and multi-style. These funds potentially have lockup and gate provisions which may limit redemption liquidity. For further details regarding the nature of Other investments and related features, see Note 8, "Other Investments," for further details.

(e) Derivative instruments

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

The calculation of the change in fair value of the embedded derivative associated with the Life Retro Arrangements includes the interest income, realized and unrealized gains and losses on Life Funds Withheld Assets and certain related expenses related to the Life Funds Withheld Assets. The fair value of the embedded derivative is included in "Funds withheld on life retrocession arrangements, net of future policy benefit reserves recoverable" on the consolidated balance sheets. The fair value of the embedded derivative is considered a Level 2 valuation.

(f) Financial Instruments Not Carried at Fair Value

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

	2014		2013	
(U.S. dollars in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed maturities, held to maturity	$ —	$ —	$ 2,858,695	$ 3,131,235
Other investments – structured transactions and other	354,382	371,625	294,048	296,799
Financial Assets	$ 354,382	$ 371,625	$ 3,152,743	$ 3,428,034
Deposit liabilities	$ 1,245,367	$ 1,543,761	$ 1,509,243	$ 1,718,394
Notes payable and debt	1,662,580	1,897,854	2,263,203	2,429,412
Financial Liabilities	$ 2,907,947	$ 3,441,615	$ 3,772,446	$ 4,147,806

As described in Note 3, "Sale of Life Reinsurance Subsidiary," certain fixed maturities were reclassified from held to maturity to available for sale. See also Note 6, "Investments," for further information.

The Company historically participated in structured transactions. Remaining structured transactions include cash loans supporting project finance transactions, a liquidity facility financing provided to structured project deals and an investment in a

payment obligation with an insurance company. These transactions are carried at amortized cost. The fair value of these investments held by the Company is determined through use of internal models utilizing reported trades, benchmark yields, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data.

Deposit liabilities include obligations under structured insurance and reinsurance transactions. For purposes of fair value disclosures, the Company determined the estimated fair value of the deposit liabilities by assuming a discount rate equal to the appropriate U.S. Treasury rate plus 29.5 basis points and 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.

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

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

5. Segment Information

The Company is organized into two operating segments: Insurance and Reinsurance. Subsequent to the transaction as described in Note 3, "Sale of Life Reinsurance Subsidiary," GCLR reinsures the majority of the Company's life reinsurance business through the Life Retro Arrangements. The Company no longer considers the Life Operations to be a separate operating segment and the results of the Run-Off Life Operations are reported within “Corporate and Other.” The Company’s general investment and financing operations are also reflected in Corporate and Other. The run-off business subject to the Life Retro Arrangements was, prior to June 30, 2014, reported within the Company’s Life operations segment. Prior period information has been recast to reflect the current presentation.

The Company evaluates the performance of both the Insurance and Reinsurance segments based on underwriting profit. Other items of revenue and expenditure of the Company are not evaluated at the segment level. In addition, the Company does not allocate investment assets used to support its Property and Casualty (“P&C”) operations to the individual segments, except as noted below. Investment assets related to the Company’s Run-Off Life Operations and certain structured products included in the Insurance and Reinsurance segments are held in separately identified portfolios. As such, net investment income from these assets is included in the contribution from the applicable segment or in Corporate and Other. The following tables summarize the segment results for the indicated years ended:

Year Ended December 31, 2014 *(U.S. dollars in thousands, except ratios)*	**Insurance**	**Reinsurance**	**Total P&C**	**Corporate and Other (1)**	**Total**
Gross premiums written	$ 5,976,011	$ 1,785,479	$ 7,761,490	$ 333,436	$ 8,094,926
Net premiums written	4,134,151	1,633,058	5,767,209	177,632	5,944,841
Net premiums earned	4,026,713	1,690,725	5,717,438	177,632	5,895,070
Net losses and loss expenses	2,543,108	715,285	3,258,393	242,963	3,501,356
Acquisition costs	393,319	330,684	724,003	14,115	738,118
Operating expenses (2)	865,592	193,404	1,058,996	10,693	1,069,689
Underwriting profit (loss)	$ 224,694	$ 451,352	$ 676,046	$ (90,139)	$ 585,907
Net investment income - excluding Life Funds Withheld Assets (3)			574,458	146,558	721,016
Net investment income - Life Funds Withheld Assets				129,575	129,575
Net results from structured products (4)	43,710	10,499	54,209	—	54,209
Net fee income and other (5)	(10,051)	2,800	(7,251)	360	(6,891)
Loss on sale of life reinsurance subsidiary			—	666,423	666,423
Net realized gains (losses) on investments - excluding Life Funds Withheld Assets			119,366	3,625	122,991
Net realized gains (losses) on investments and net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets			—	(15,529)	(15,529)
Net realized and unrealized gains (losses) on derivative instruments			—	29,886	29,886
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets			—	(488,222)	(488,222)
Net income (loss) from investment fund affiliates and operating affiliates (6)			—	203,034	203,034
Exchange (gains) losses			—	(37,568)	(37,568)
Corporate operating expenses			—	220,165	220,165
Contribution from P&C and Corporate and Other			1,416,828	(929,872)	486,956
Interest expense (7)				121,221	121,221
Non-controlling interests				80,498	80,498
Income tax expense				96,897	96,897
Net income (loss) attributable to ordinary shareholders					$ 188,340
Ratios – P&C operations: (8)					
Loss and loss expense ratio	63.2%	42.3%	57.0%		
Underwriting expense ratio	31.2%	31.0%	31.2%		
Combined ratio	94.4%	73.3%	88.2%		

____
(1) Corporate and Other includes other items of our revenue and expenditures that are not evaluated at the segment level for reporting purposes, as well as the Company's Run-Off Life Operations.
(2) Operating expenses of the segments exclude Corporate operating expenses, shown separately.
(3) Net investment income - excluding Life Funds Withheld Assets does not include net investment income related to the net results from structured products.
(4) The net results from P&C structured products include net investment income and interest expense of $68.0 million and $12.9 million, respectively.
(5) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business.
(6) The Company generally records the income related to the alternative funds and to the private investment and operating fund affiliates on a one-month and three-month lag, respectively.
(7) Interest expense excludes interest expense related to deposit liabilities recorded in the Insurance and Reinsurance segments.
(8) Ratios are based on net premiums earned from P&C operations.

Year Ended December 31, 2013 *(U.S. dollars in thousands, except ratios)*	Insurance	Reinsurance	Total P&C	Corporate & Other (1)	Total
Gross premiums written	$ 5,523,181	$ 1,893,611	$ 7,416,792	$ 324,343	$ 7,741,135
Net premiums written	4,154,093	1,749,889	5,903,982	295,422	6,199,404
Net premiums earned	4,267,677	1,746,422	6,014,099	295,422	6,309,521
Net losses and loss expenses	2,829,999	901,465	3,731,464	465,702	4,197,166
Acquisition costs	529,270	353,388	882,658	26,665	909,323
Operating expenses (2)	782,677	166,238	948,915	8,926	957,841
Underwriting profit (loss)	$ 125,731	$ 325,331	$ 451,062	$ (205,871)	$ 245,191
Net investment income (3)			599,144	286,645	885,789
Net results from structured products (4)	15,562	8,229	23,791	—	23,791
Net fee income and other (5)	(9,317)	2,320	(6,997)	1,305	(5,692)
Net realized gains (losses) on investments			85,792	1,985	87,777
Net realized and unrealized gains (losses) on derivative instruments			—	7,798	7,798
Net income (loss) from investment fund affiliates and operating affiliates (6)			—	258,195	258,195
Exchange (gains) losses			—	(28,243)	(28,243)
Corporate operating expenses			—	209,454	209,454
Contribution from P&C and Corporate and Other			1,152,792	168,846	1,321,638
Interest expense (7)				107,486	107,486
Non-controlling interests				76,731	76,731
Income tax expense				77,505	77,505
Net income (loss) attributable to ordinary shareholders					$ 1,059,916
Ratios – P&C operations: (8)					
Loss and loss expense ratio	66.3%	51.6%	62.0%		
Underwriting expense ratio	30.8%	29.8%	30.5%		
Combined ratio	97.1%	81.4%	92.5%		

____
(1) Corporate and Other includes other items of our revenue and expenditures that are not evaluated at the segment level for reporting purposes, as well as the Company's Run-Off Life Operations.
(2) Operating expenses of the segments exclude Corporate operating expenses, shown separately.
(3) Net investment income does not include net investment income related to the net results from structured products.
(4) The net results from P&C structured products include net investment income and interest expense of $71.9 million and $48.0 million, respectively.
(5) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business.
(6) The Company generally records the income related to the alternative funds and to the private investment and operating fund affiliates on a one-month and three-month lag, respectively.
(7) Interest expense excludes interest expense related to deposit liabilities recorded in the Insurance and Reinsurance segments.
(8) Ratios are based on net premiums earned from P&C operations.

Year Ended December 31, 2012 *(U.S. dollars in thousands, except ratios)*	**Insurance**	**Reinsurance**	**Total P&C**	**Corporate and Other (1)**	**Total**
Gross premiums written	$ 5,166,973	$ 2,008,157	$ 7,175,130	$ 355,753	$ 7,530,883
Net premiums written	4,072,511	1,884,508	5,957,019	324,432	6,281,451
Net premiums earned	3,924,636	1,841,342	5,765,978	324,459	6,090,437
Net losses and loss expenses	2,691,056	1,074,426	3,765,482	486,195	4,251,677
Acquisition costs	504,227	368,172	872,399	41,093	913,492
Operating expenses (2)	754,308	157,657	911,965	9,335	921,300
Underwriting profit (loss)	$ (24,955)	$ 241,087	$ 216,132	$ (212,164)	$ 3,968
Net investment income (3)			641,237	299,443	940,680
Net results from structured products (4)	20,978	(15,721)	5,257	—	5,257
Net fee income and other (5)	850	2,492	3,342	426	3,768
Net realized gains (losses) on investments			35,101	(21,003)	14,098
Net realized and unrealized gains (losses) on derivative instruments			—	5,221	5,221
Net income (loss) from investment fund affiliates and operating affiliates (6)			—	112,391	112,391
Exchange (gains) losses			—	10,545	10,545
Corporate operating expenses			—	204,502	204,502
Contribution from P&C and Corporate and Other			901,069	(30,733)	870,336
Interest expense (7)				105,925	105,925
Non-controlling interests				79,255	79,255
Income tax expense				34,028	34,028
Net income (loss) attributable to ordinary shareholders					$ 651,128
Ratios – P&C operations: (8)					
Loss and loss expense ratio	68.6%	58.4%	65.3%		
Underwriting expense ratio	32.0%	28.5%	31.0%		
Combined ratio	100.6%	86.9%	96.3%		

____
(1) Corporate and Other includes other items of our revenue and expenditures that are not evaluated at the segment level for reporting purposes, as well as the Company's Run-Off Life Operations.
(2) Operating expenses exclude Corporate operating expenses, shown separately.
(3) Net investment income does not include net investment income related to the net results from structured products.
(4) The net results from P&C structured products include net investment income and interest expense of $71.7 million and $66.3 million, respectively.
(5) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business.
(6) The Company generally records the income related to the alternative funds and to the private investment and operating fund affiliates on a one-month and three-month lag, respectively.
(7) Interest expense excludes interest expense related to deposit liabilities recorded in the Insurance and Reinsurance segments.
(8) Ratios are based on net premiums earned from P&C operations.

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

Year Ended December 31, 2014 *(U.S. dollars in thousands)*	Insurance	Reinsurance	Corporate and Other	Total
P&C Operations:				
Professional	$ 1,075,420	$ 181,223	$ —	$ 1,256,643
Casualty	1,422,684	300,223	—	1,722,907
Property catastrophe	—	433,602	—	433,602
Property	544,856	555,583	—	1,100,439
Marine, energy, aviation and satellite	—	95,745	—	95,745
Specialty	737,281	—	—	737,281
Other (1)	246,472	124,349	—	370,821
Total P&C Operations	$ 4,026,713	$ 1,690,725	$ —	$ 5,717,438
Corporate and Other:				
Run-Off Life Operations - Annuity	—	—	53,363	53,363
Run-Off Life Operations - Other Life	—	—	124,269	124,269
Total Corporate and Other	$ —	$ —	$ 177,632	$ 177,632
Total	$ 4,026,713	$ 1,690,725	$ 177,632	$ 5,895,070
Year Ended December 31, 2013				
P&C Operations:				
Professional	$ 1,370,196	$ 206,169	$ —	$ 1,576,365
Casualty	1,389,851	312,156	—	1,702,007
Property catastrophe	—	492,568	—	492,568
Property	544,278	561,105	—	1,105,383
Marine, energy, aviation and satellite	—	94,797	—	94,797
Specialty	732,042	—	—	732,042
Other (1)	231,310	79,627	—	310,937
Total P&C Operations	$ 4,267,677	$ 1,746,422	$ —	$ 6,014,099
Corporate and Other:				
Run-Off Life Operations - Annuity	$ —	$ —	$ 122,715	$ 122,715
Run-Off Life Operations - Other Life	—	—	172,707	172,707
Total Corporate and Other	$ —	$ —	$ 295,422	$ 295,422
Total	$ 4,267,677	$ 1,746,422	$ 295,422	$ 6,309,521
Year Ended December 31, 2012				
P&C Operations:				
Professional	$ 1,350,319	$ 213,324	$ —	$ 1,563,643
Casualty	1,165,753	311,166	—	1,476,919
Property catastrophe	—	463,975	—	463,975
Property	489,739	613,291	—	1,103,030
Marine, energy, aviation and satellite	—	147,362	—	147,362
Specialty	708,568	—	—	708,568
Other (1)	210,257	92,224	—	302,481
Total P&C Operations	$ 3,924,636	$ 1,841,342	$ —	$ 5,765,978
Corporate and Other:				
Run-Off Life Operations - Annuity	$ —	$ —	$ 126,912	$ 126,912
Run-Off Life Operations - Other Life	—	—	197,547	197,547
Total Corporate and Other	$ —	$ —	$ 324,459	$ 324,459
Total	$ 3,924,636	$ 1,841,342	$ 324,459	$ 6,090,437

____

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

The following table shows an analysis of the Company’s net premiums written by geographical location of subsidiary where the premium is written for the years ended December 31:

(U.S. dollars in thousands)	2014	2013	2012
P&C Operations:			
Bermuda	$ 636,109	$ 658,041	$ 644,566
United States	2,528,196	2,650,916	2,626,855
Europe	2,124,117	2,111,065	2,202,209
Other	478,787	483,960	483,389
Total P&C Operations	$ 5,767,209	$ 5,903,982	$ 5,957,019
Corporate and Other:			
Bermuda	$ 91,979	$ 117,948	$ 129,997
Europe	85,653	177,474	194,435
Total Corporate and Other	$ 177,632	$ 295,422	$ 324,432

6. Investments

(a) 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 as discussed in Note 3, “Sale of Life Reinsurance Subsidiary.” 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 (Loss)" 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 and gross unrealized (losses), including OTTI recorded in accumulated other comprehensive income ("AOCI") of the Company's AFS and HTM investments at December 31, 2014 and 2013, were as follows:

December 31, 2014 *(U.S. 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					
U.S. Government and Government-Related/Supported	$ 2,100,851	$ 77,889	$ (6,787)	$ 2,171,953	$ —
Corporate (2)	8,462,130	365,805	(49,562)	8,778,373	(3,309)
RMBS – Agency	3,625,171	114,188	(10,783)	3,728,576	—
RMBS – Non-Agency	404,398	41,108	(18,155)	427,351	(67,918)
CMBS	1,033,819	23,987	(5,262)	1,052,544	(2,033)
CDO	717,544	1,659	(27,169)	692,034	(1,663)
Other asset-backed securities (2)	1,028,528	42,810	(6,045)	1,065,293	(1,797)
U.S. States and political subdivisions of the States	1,892,566	129,910	(1,204)	2,021,272	—
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	4,162,425	139,484	(61,836)	4,240,073	—
Total fixed maturities - AFS - Excluding Life Funds Withheld Assets	$ 23,427,432	$ 936,840	$ (186,803)	$ 24,177,469	$ (76,720)
Total short-term investments	257,221	49	(543)	256,727	—
Total equity securities	763,833	130,689	(26,230)	868,292	—
Total investments - AFS - Excluding Life Funds Withheld Assets	$ 24,448,486	$ 1,067,578	$ (213,576)	$ 25,302,488	$ (76,720)
Fixed maturities - AFS - Life Funds Withheld Assets					
U.S. Government and Government-Related/Supported	$ 14,866	$ 3,858	$ —	$ 18,724	$ —
Corporate	2,407,849	410,131	—	2,817,980	—
RMBS – Agency	3,301	481	—	3,782	—
RMBS – Non-Agency	71,075	14,260	—	85,335	—
CMBS	168,886	24,281	—	193,167	—
CDO	—	—	—	—	—
Other asset-backed securities	238,168	35,373	—	273,541	—
U.S. States and political subdivisions of the States	—	—	—	—	—
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	1,397,194	391,842	—	1,789,036	—
Total fixed maturities - AFS - Life Funds Withheld Assets	$ 4,301,339	$ 880,226	$ —	$ 5,181,565	$ —
Total investments - AFS	$ 28,749,825	$ 1,947,804	$ (213,576)	$ 30,484,053	$ (76,720)
Total fixed maturities - HTM	$ —	$ —	$ —	$ —	$ —

December 31, 2014 *(U.S. dollars in thousands)*	**Amortized Cost**	**Fair Value**
Fixed maturities - Trading - Life Funds Withheld Assets		
Corporate	1,180	1,171
Total investments - Trading - Life Funds Withheld 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.

(2) Included 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 $79.9 million and an amortized cost of $68.4 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.

December 31, 2013 *(U.S. 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					
U.S. Government and Government-Related/Supported	$ 2,484,193	$ 51,701	$ (34,043)	$ 2,501,851	$ —
Corporate (2)	10,802,332	433,097	(109,599)	11,125,830	(4,758)
RMBS – Agency	3,540,101	68,098	(62,077)	3,546,122	—
RMBS – Non-Agency	396,798	33,096	(31,126)	398,768	(74,528)
CMBS	1,223,313	39,255	(15,773)	1,246,795	(2,753)
CDO	754,414	5,833	(42,934)	717,313	(2,036)
Other asset-backed securities (2)	1,210,384	40,560	(8,840)	1,242,104	(2,807)
U.S. States and political subdivisions of the States	1,821,499	55,083	(30,770)	1,845,812	—
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	4,878,840	80,961	(84,260)	4,875,541	—
Total fixed maturities - AFS	$ 27,111,874	$ 807,684	$ (419,422)	$ 27,500,136	$ (86,882)
Total short-term investments	455,470	962	(144)	456,288	—
Total equity securities	903,201	154,506	(17,470)	1,040,237	—
Total investments - AFS	$ 28,470,545	$ 963,152	$ (437,036)	$ 28,996,661	$ (86,882)
Fixed maturities - HTM					
U.S. Government and Government-Related/Supported	$ 10,993	$ 629	$ —	$ 11,622	$ —
Corporate	1,386,863	113,179	(968)	1,499,074	—
RMBS – Non-Agency	66,987	4,985	—	71,972	—
CMBS	144,924	11,864	—	156,788	—
Other asset-backed securities	106,540	6,908	—	113,448	—
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	1,142,388	136,585	(642)	1,278,331	—
Total investments - HTM	$ 2,858,695	$ 274,150	$ (1,610)	$ 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) Included 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 $154.6 million and an amortized cost of $147.7 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.

At December 31, 2014 and 2013, approximately 3.0% and 2.6%, respectively, of the Company's fixed income investment portfolio at fair value, excluding Life Funds Withheld Assets, was invested in securities that were below investment grade or not rated. Approximately 24.9% and 12.4% of the gross unrealized losses in the Company's fixed income investment portfolio, excluding Life Funds Withheld Assets, at December 31, 2014 and 2013, respectively, related to securities that were below investment grade or not rated.

Contractual Maturities Summary

The contractual maturities of AFS and HTM fixed income securities at December 31, 2014 and 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	
(U.S. dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Fixed maturities - AFS				
Due less than one year	$ 1,972,224	$ 1,980,429	$ 2,052,251	$ 2,060,365
Due after 1 through 5 years	8,919,037	9,113,651	10,075,087	10,305,986
Due after 5 through 10 years	4,232,396	4,412,569	5,474,120	5,507,450
Due after 10 years	1,494,315	1,705,022	2,385,406	2,475,233
	$ 16,617,972	$ 17,211,671	$ 19,986,864	$ 20,349,034
RMBS – Agency	$ 3,625,171	$ 3,728,576	$ 3,540,101	$ 3,546,122
RMBS – Non-Agency	404,398	427,351	396,798	398,768
CMBS	1,033,819	1,052,544	1,223,313	1,246,795
CDO	717,544	692,034	754,414	717,313
Other asset-backed securities	1,028,528	1,065,293	1,210,384	1,242,104
Total mortgage and asset-backed securities	$ 6,809,460	$ 6,965,798	$ 7,125,010	$ 7,151,102
Total fixed maturities - AFS	$ 23,427,432	$ 24,177,469	$ 27,111,874	$ 27,500,136
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	$ —	$ —
RMBS – Agency	$ 3,301	$ 3,782	$ —	$ —
RMBS – Non-Agency	71,075	85,335	—	—
CMBS	168,886	193,167	—	—
CDO	—	—	—	—
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	$ 5,181,565	$ —	$ —
Total fixed maturities - AFS	$ 27,728,771	$ 29,359,034	$ 27,111,874	$ 27,500,136
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	—	—	—	—
Total fixed maturities - Trading - Life Funds Withheld Assets	$ 1,180	$ 1,171	$ —	$ —
Fixed maturities - HTM				
Due less than one year	$ —	$ —	$ 65,651	$ 66,766
Due after 1 through 5 years	—	—	240,802	255,322
Due after 5 through 10 years	—	—	455,633	492,095
Due after 10 years	—	—	1,778,158	1,974,844
	$ —	$ —	$ 2,540,244	$ 2,789,027
RMBS – Non-Agency	—	—	66,987	71,972
CMBS	—	—	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	$ —	$ —	$ 2,858,695	$ 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 that 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 loss impairment 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.

Pledged Assets

Certain of the Company's invested assets are held in trust and pledged in support of insurance and reinsurance liabilities as well as credit facilities. Such pledges are largely required by the Company's operating subsidiaries that are "non-admitted" under U.S. state insurance regulations, in order for the U.S. cedant to receive statutory credit for reinsurance. Also, certain deposit liabilities and annuity contracts require the use of pledged assets. At December 31, 2014 and 2013, the Company had $15.2 billion and $15.5 billion in pledged assets, respectively.

(b) Gross Unrealized Losses

The following is an analysis of how long the AFS and HTM securities at December 31, 2014 and 2013 had been in a continual unrealized loss position:

December 31, 2014 *(U.S. dollars in thousands)*	Less than 12 months		Equal to or greater than 12 months	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities and short-term investments - AFS				
U.S. Government and Government-Related/Supported	$ 251,091	$ (1,196)	$ 342,890	$ (5,603)
Corporate	1,337,470	(33,881)	424,221	(15,754)
RMBS – Agency	134,535	(220)	512,652	(10,563)
RMBS – Non-Agency	45,378	(1,358)	202,700	(16,797)
CMBS	78,356	(385)	169,065	(4,877)
CDO	249,803	(2,666)	414,516	(24,503)
Other asset-backed securities	143,044	(2,813)	57,544	(3,232)
U.S. States and political subdivisions of the States	32,187	(210)	63,695	(994)
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	624,346	(19,043)	558,422	(43,251)
Total fixed maturities and short-term investments - AFS	$ 2,896,210	$ (61,772)	$ 2,745,705	$ (125,574)
Total equity securities	$ 191,193	$ (26,230)	$ —	$ —
Total fixed maturities - HTM	$ —	$ —	$ —	$ —

December 31, 2013 *(U.S. dollars in thousands)*	Less than 12 months		Equal to or greater than 12 months	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities and short-term investments - AFS				
U.S. Government and Government-Related/Supported	$ 1,333,704	$ (30,474)	$ 44,158	$ (3,614)
Corporate	2,756,235	(59,497)	513,106	(50,160)
RMBS – Agency	1,485,261	(50,362)	169,704	(11,715)
RMBS – Non-Agency	14,204	(604)	240,946	(30,522)
CMBS	432,820	(6,816)	107,192	(8,957)
CDO	58,239	(217)	574,613	(42,717)
Other asset-backed securities	196,639	(2,149)	96,528	(6,691)
U.S. States and political subdivisions of the States	463,974	(23,124)	64,324	(7,646)
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	2,130,792	(56,866)	306,873	(27,435)
Total fixed maturities and short-term investments - AFS	$ 8,871,868	$ (230,109)	$ 2,117,444	$ (189,457)
Total equity securities	$ 155,453	$ (17,470)	$ —	$ —
Fixed maturities -HTM				
Corporate	$ 46,034	$ (941)	$ 642	$ (27)
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported	—	—	11,894	(642)
Total fixed maturities - HTM	$ 46,034	$ (941)	$ 12,536	$ (669)

The Company had gross unrealized losses totaling $213.6 million on 1,631 securities out of a total of 7,669 held at December 31, 2014 in its AFS Excluding Life Funds Withheld Assets portfolio, which either it considers to be temporarily impaired or with respect to which it reflects non-credit losses on other-than-temporarily impaired assets. Individual security positions comprising this balance have been evaluated by management to determine the severity of these impairments and whether they should be considered other-than-temporary. Management believes it is more likely than not that the issuer will be able to fund sufficient principal and interest payments to support the current amortized cost.

Management, in its assessment of whether securities in a gross unrealized loss position are temporarily impaired, as described above, considers the significance of the impairments. At December 31, 2014, the AFS Excluding Life Funds Withheld Assets portfolio included structured credit securities with gross unrealized losses of $9.6 million, which had a fair value of $5.5 million, and a cumulative fair value decline of greater than 50% of amortized cost. All of these securities are mortgage and asset-backed securities.

(c) Net Investment Income

Net investment income for the years ended December 31 is derived from the following sources:

(U.S. dollars in thousands)	2014	2013	2012
Fixed maturities, short term investments and cash equivalents - Excluding Life Funds Withheld Assets	$ 809,964	$ 982,275	$ 1,046,255
Fixed maturities, short term investments and cash equivalents - Life Funds Withheld Assets	129,575	—	—
Equity securities and other investments	42,252	35,388	29,807
Funds withheld	14,583	12,783	12,090
Total gross investment income	$ 996,374	$ 1,030,446	$ 1,088,152
Investment expenses	(77,749)	(72,730)	(75,804)
Total net investment income	$ 918,625	$ 957,716	$ 1,012,348

(d) Net Realized Gains (Losses)

The following represents an analysis of net realized gains (losses), the change in unrealized gains (losses) on investments and net realized and unrealized gains (losses) on investment related derivative instruments for the years ended December 31:

(U.S. dollars in thousands)	2014	2013	2012
Net realized gains (losses):			
Fixed maturities, short term investments, cash and cash equivalents - Excluding Life Funds Withheld Assets:			
Gross realized gains	$ 119,817	$ 129,479	$ 163,328
Gross realized losses on investments sold	(66,892)	(84,703)	(107,033)
OTTI on investments, net of amounts transferred to other comprehensive income	(12,341)	(16,282)	(74,245)
Net realized gains (losses)	$ 40,584	$ 28,494	$ (17,950)
Equity securities:			
Gross realized gains	$ 96,260	$ 29,402	$ 42,009
Gross realized losses on investments sold	(12,270)	(3,185)	(7,121)
OTTI on investments, net of amounts transferred to other comprehensive income	(10,944)	(17)	(3,746)
Net realized gains (losses)	$ 73,046	$ 26,200	$ 31,142
Other investments:			
Gross realized gains	$ 31,830	$ 46,934	$ 11,610
Gross realized losses on investments sold	(10,011)	(13,851)	(7,983)
OTTI on investments, net of amounts transferred to other comprehensive income	(12,458)	—	(2,721)
Net realized gains (losses)	$ 9,361	$ 33,083	$ 906
Net realized gains (losses) on investments - Excluding Life Funds Withheld Assets	**$ 122,991**	**$ 87,777**	**$ 14,098**
Fixed maturities, short term investments, cash and cash equivalents - Life Funds Withheld Assets:			
Gross realized gains	$ 7,926	$ —	$ —
Gross realized losses on investments sold	(2,859)	—	—
Net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets	(9)	—	—
OTTI on investments, net of amounts transferred to other comprehensive income	(20,587)	—	—
Net realized gains (losses) on investments - Life Funds Withheld Assets	**$ (15,529)**	**$ —**	**$ —**
Net realized gains (losses) on investments	**$ 107,462**	**$ 87,777**	**$ 14,098**
Net realized and unrealized gains (losses) on investment related derivative instruments	$ 20,121	$ 6,367	$ (1,228)
Net realized gains (losses) on investments and net realized and unrealized gains (losses) on investment related derivative instruments	**$ 127,583**	**$ 94,144**	**$ 12,870**
Change in unrealized gains (losses):			
Fixed maturities – AFS - Excluding Life Funds Withheld Assets	$ 360,463	$ (913,174)	$ 884,259
Fixed maturities - AFS - Life Funds Withheld Assets	880,226	—	—
Fixed maturities – HTM	(272,540)	(175,817)	221,647
Equity securities	(32,577)	105,163	44,361
Affiliates and other investments	35,143	26,636	46,163
Net change in unrealized gains (losses) on investments	$ 970,715	$ (957,192)	$ 1,196,430
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	**$ 1,098,298**	**$ (863,048)**	**$ 1,209,300**

The significant components of the net impairment charges of $35.7 million for investments excluding Life Funds Withheld Assets for the year ended December 31, 2014 were:

- $12.5 million related to Other Investments.
- $10.9 million related to certain equities that were in a loss position for more than 11 months or impaired by more than 50%.
- $3.7 million related to change of intent to hold Corporate High Yield securities.

- $4.3 million for structured securities, principally non-Agency RMBS, where we determined that the likely recovery on these securities was below the carrying value and, accordingly, recorded an impairment of the securities to the discounted value of the cash flows expected to be received on these securities.

- $4.2 million related to foreign exchange losses.

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

Credit Loss Impairments *(U.S. dollars in thousands)*	**2014**	**2013**
Opening balance at beginning of indicated period	$ 174,805	$ 268,708
Credit loss impairment recognized in the current period on securities not previously impaired	3,907	806
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(42,671)	(92,167)
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	4,185	11,182
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(8,284)	(13,724)
Closing balance at end of indicated period	$ 131,942	$ 174,805

During the years ended December 31, 2014 and 2013, the $42.7 million and $92.2 million, respectively, credit loss impairments previously recognized on securities that matured, or were paid down, prepaid or sold, includes $9.0 million and $66.1 million, respectively, of non-Agency RMBS.

7. Investments in Affiliates

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. See Note 8, "Other Investments," for information about investments in alternative and private equity funds in which the Company generally owns less than 3% and which the Company accounts for as "Other Investments."

Investments in affiliates comprised the following at December 31, 2014 and 2013:

(U.S. dollars in thousands)	**2014**	**2013**
Investment fund affiliates	$ 1,219,138	$ 1,042,072
Operating affiliates	418,482	328,871
Total investment affiliates	$ 1,637,620	$ 1,370,943

(a) 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 (shown as “Combined Funds”) are included below:

	XL Group Investment			Combined Funds
Year Ended December 31, 2014 *(U.S. dollars in thousands, except percentages)*	**Carrying Value**	**Equity in Net Income (Loss) for the Year**	**Weighted Average XL Percentage Ownership**	**Total Net Assets (Estimated) (1)**
Alternative Funds (2):				
Arbitrage	$ 134,400	$ 12,060	11.0%	$ 1,224,526
Directional	536,470	32,196	9.2%	5,865,247
Event Driven (3)	300,168	21,030	3.1%	9,703,973
Multi-Style	52,122	1,751	4.1%	1,278,410
Total alternative funds	$ 1,023,160	$ 67,037	5.7%	$ 18,072,156
Private Investment Funds (2):	195,978	28,779	17.7%	1,105,776
Total Investment Fund Affiliates	$ 1,219,138	$ 95,816	6.4%	$ 19,177,932
Year Ended December 31, 2013				
Alternative Funds (2):				
Arbitrage	$ 158,096	$ 4,358	3.7%	$ 4,328,748
Directional	434,652	42,492	8.3%	5,235,690
Event Driven (3)	274,380	61,551	2.9%	9,309,163
Multi-Style	374	48	15.5%	2,410
Total alternative funds	$ 867,502	$ 108,449	4.6%	$ 18,876,011
Private Investment Funds (2):	174,570	29,942	19.6%	890,815
Total Investment Fund Affiliates	$ 1,042,072	$ 138,391	5.3%	$ 19,766,826

____
(1) Total estimated net assets are generally as at November 30 for alternative fund affiliates and September 30 for private investment fund affiliates.
(2) The Company generally records its alternative fund affiliates on a one-month lag and its private investment fund affiliates on a three-month lag.
(3) The Company accounts for its investment in certain funds where the ownership percentage is less than three percent using the equity method, where the Company has significant influence over the related investment management company.

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 at December 31, 2014 and 2013 was $543.0 million and $488.5 million, respectively. The Company did not have any holdings in funds where a gate was imposed 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 private 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 other 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." At December 31, 2014 and 2013, the carrying value of our funds held in side-pockets was $22.2 million and $42.3 million, respectively. The underlying assets within these positions are generally expected to be liquidated over a period of approximately two to four years.

(b) Operating Affiliates

The Company has invested in investment and (re)insurance affiliates and 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:

	XL Group Investment		Combined Investee Summarized Financial Data (Estimated) (1)			
Year ended December 31, 2014 *(U.S. dollars in thousands)*	**Carrying Value**	**Equity in Net Income (Loss) for the Year**	**Total Assets**	**Total Liabilities**	**Total Revenue (Loss)**	**Net Income (Loss)**
Other strategic operating affiliates	$ 317,216	$ 50,132	$ 4,679,395	$ 3,691,173	$ 1,075,935	$ 152,122
Investment manager affiliates (2)	101,266	57,086	850,666	101,088	579,524	476,841
Total operating affiliates	$ 418,482	$ 107,218	$ 5,530,061	$ 3,792,261	$ 1,655,459	$ 628,963
Year ended December 31, 2013						
Other strategic operating affiliates	266,796	41,160	2,646,987	1,888,879	902,522	125,625
Investment manager affiliates (2)	62,075	78,644	922,348	92,574	813,587	710,412
Total operating affiliates	$ 328,871	$ 119,804	$ 3,569,335	$ 1,981,453	$ 1,716,109	$ 836,037

____
(1) The Company generally records its operating affiliates on a three-month 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 $60.3 million and $28.3 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 19(c), "Commitments and Contingencies – Investments in Affiliates," for further information regarding commitments related to investment in affiliates.

Other Strategic Operating Affiliates

At December 31, 2014, the Company's larger strategic operating affiliates included ARX Holding Corporation ("ARX") and Five Oaks Investment Corp ("Five Oaks"). The Company's investment in ARX was approximately 40% at December 31, 2014 and 2013, respectively.

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 29, "Subsequent Events".

In May 2012, the Company invested $25.0 million to obtain an approximate 94% interest in Five Oaks, a newly formed private investment company. Five Oaks is a mortgage real estate investment trust that is focused on investing in, financing and managing a leveraged portfolio of agency and non-agency residential mortgage-backed securities, residential mortgage loans and other mortgage-related investments.

In March 2013, Five Oaks completed an initial public offering ("IPO") of approximately 4.0 million of its common shares for gross proceeds of approximately $61.0 million and, concurrently with its IPO, Five Oaks sold to the Company an additional 1.67 million shares for $25.0 million in a private placement. Following these transactions, and the receipt of 8,175 shares distributed to the Company in respect of its investment in Oak Circle Capital Partners LLC ("Oak Circle"), the Company's ownership interest in Five Oaks was reduced to 43.8%, which no longer represented a controlling financial interest. Accordingly, the Five Oaks investment was deconsolidated by the Company at the closing date of the Five Oaks IPO. The investment is accounted for under the equity method and carried as a strategic operating affiliate at December 31, 2014. The Company generally records the income related to strategic operating affiliates on a three-month lag based upon the availability of the information provided by the investees. A loss of $1.5 million was recorded upon deconsolidation within Realized investment gains (losses) based upon the difference between the fair value of the Company's retained interest in Five Oaks subsequent to the additional share sales and the Company's carrying value of Five Oaks' net assets at the closing date of the Five Oaks IPO. In addition, in September 2012, the Company received warrants that were priced at the time of the IPO. The warrants allow the Company to purchase an additional 3.125 million shares at $15.75 per share, which would result in a total additional investment of $49.2 million by the Company should it exercise the warrants in full in the future. The warrants expire in September 2019.

As a result of various public offerings which occurred during 2014, the Company's ownership interest in Five Oaks declined to 21.9% at December 31, 2014.

In March 2012, the Company purchased an equity interest in Oak Circle, the investment management company that provides portfolio management and other administrative services to Five Oaks. The Company's investment in Oak Circle is included in investment manager affiliates.

During 2013, the Company purchased an interest in one additional strategic operating affiliate for $30.0 million.

Investment Manager Affiliates

During the years ended December 31, 2014, 2013 and 2012, the Company’s larger investment manager affiliates included Highfields Capital, a global equity investment firm, Polar Capital, an investment firm offering traditional and alternative products, and HighVista Strategies, a diversified wealth management firm.

8. Other Investments

Contained within this asset class are equity interests in alternative and private investment funds, limited partnerships and unrated tranches of collateralized debt obligations for which the Company does not have sufficient rights or ownership interests to use the equity method of accounting. The Company accounts for such equity securities at estimated fair value with changes in fair value recorded through AOCI since it does not have significant influence over these entities. Also included within other investments are structured transactions that are carried at amortized cost.

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

Year ended December 31, *(U.S. dollars in thousands)*	2014	2013
Alternative Investment Funds:		
Arbitrage	$ 179,821	$ 158,220
Directional	336,082	357,469
Event Driven	56,238	56,873
Multi-Style	68,706	72,625
Total alternative funds	$ 640,847	$ 645,187
Private investment funds	129,243	94,064
Overseas deposits	92,223	111,302
Structured transactions	350,563	294,048
Other	35,563	20,029
Total other investments	$ 1,248,439	$ 1,164,630

(a) Alternative and Private Investment Funds

At December 31, 2014 and 2013, the alternative fund portfolio, accounted for as other investments, employed four strategies and invested in 16 alternative funds. The Company is able to redeem the alternative 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 at December 31, 2014 and 2013 was $425.7 million and $360.6 million, respectively. The Company did not have any holdings in funds where a gate was imposed 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 private 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 other 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”. At December 31, 2014 and 2013, the fair value of our funds held in side-

pockets was $24.5 million and $24.1 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 the 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 the value of the hedge funds in any given time period.

The following represents an analysis of the net realized gains for the indicated years ended December 31, and the net unrealized gains as of December 31, on the Company's alternative investment funds and private equity funds:

Year ended December 31, *(U.S. dollars in thousands)*	**Net Unrealized Gains (Losses)**		**Net Realized Gains (Losses)**		
	2014	**2013**	**2014**	**2013**	**2012**
Alternative investment funds	$ 188,674	$ 158,825	$ 6,685	$ 30,858	$ (2,153)
Private investment funds	42,604	44,027	13,275	4,331	257
Total	$ 231,278	$ 202,852	$ 19,960	$ 35,189	$ (1,896)

(b) Overseas Deposits

Overseas deposits include investments in private funds related to Lloyd's syndicates in which the underlying instruments are primarily government and government-related/supported and corporate fixed income securities. The funds themselves do not trade on an exchange and therefore are not included within available for sale securities. Also included in overseas deposits are restricted cash and cash equivalent balances held by Lloyd's syndicates for solvency purposes. Given the restricted nature of these cash balances, they are not included within the cash and cash equivalents category in the balance sheets.

(c) Structured Transactions

Project Finance Loans

The Company historically participated in structured transactions in project finance related areas under which the Company provided a cash loan supporting project finance transactions. These transactions are accounted for in accordance with guidance governing accounting by certain entities (including entities with trade receivables) that lend to or finance the activities of others under which the loans are considered held for investment as the Company has the intent and ability to hold for the foreseeable future or until maturity or payoff. Accordingly, these funded loan participations are reported in the balance sheets at outstanding principal adjusted for any allowance for loan losses as considered necessary by management.

At December 31, 2014 and 2013, the remaining structured project finance loans had an aggregate outstanding principal of $0.4 million and $15.2 million and an aggregate carrying value of nil and $11.1 million, respectively.

National Indemnity Endorsement

On June 9, 2009, XL Specialty Insurance Company ("XL Specialty"), a wholly-owned subsidiary of the Company, entered into an agreement with National Indemnity Company, an insurance company subsidiary of Berkshire Hathaway Inc. ("National Indemnity"). Under the agreement, and a related reinsurance agreement, National Indemnity would issue endorsements to certain directors and officers liability insurance policies known as "Side A" coverage policies underwritten by XL Specialty (the "Facility") during an eighteen month period that ended in December 31, 2011.

In connection with the Facility, XLIB purchased a payment obligation (the "Obligation") in an aggregate principal amount of $150.0 million from National Indemnity. The outstanding Obligation was recorded in Other Investments at an estimated fair value of $128.1 million, pays a coupon of 3.5%, and is being accreted to $150.0 million over the 11.5 year term of the payment obligation. The difference between the estimated fair value of the Obligation and the cost of that Obligation at the time of the transaction was approximately $21.9 million and was recorded in Other Assets. This difference, together with fees of $2.5 million, was amortized in relation to the earning of the underlying policies written.

Other Structured Transactions

On July 17, 2009, XLIB, a wholly-owned subsidiary of the Company, purchased notes with an aggregate face amount of $155.0 million. The carrying value of these notes at December 31, 2014 and 2013 was $136.0 million and $148.0 million, respectively. The issuer of the notes is a structured credit vehicle that holds corporate debt and preferred equity securities, including some securities issued by European financial institutions, as well as project finance debt securities, among other assets. The notes, which are callable under certain criteria, have a final maturity of July 22, 2039. During the second quarter of 2014, the Company recorded losses of $12.5 million, due to other than temporary declines in value of this other investment.

On October 29, 2014, XLIB, a wholly-owned subsidiary of the Company, purchased notes with an aggregate face amount of $81.9 million. The carrying value of these notes at December 31, 2014 was $77.8 million. The issuer of the notes is a structured credit vehicle that holds corporate debt and preferred equity securities, including some securities issued by European financial institutions, as well as project finance debt securities, among other assets. The notes, which are callable under certain criteria, have a final maturity of November 3, 2039.

These structured transactions are not required to be measured at fair value under GAAP and, accordingly, they have been excluded from the fair value measurement disclosures. See Note 4, "Fair Value Measurements," for details surrounding the estimated fair value of these investments.

See Note 19(b), "Commitments and Contingencies – Other Investments," for further information regarding commitments related to other investments.

9. Goodwill and Other Intangible Assets

The following table presents an analysis of intangible assets broken down between goodwill, intangible assets with an indefinite life and intangible assets with a definite life for the years ended December 31, 2014, 2013 and 2012:

(U.S. dollars in thousands)	Goodwill	Intangible assets with an indefinite life	Intangible assets with a definite life	Total
Balance at December 31, 2011	$ 391,498	$ 15,366	$ 457	$ 407,321
Amortization	—	—	(178)	(178)
Foreign Currency Translation	1,384	—	—	1,384
Balance at December 31, 2012	$ 392,882	$ 15,366	$ 279	$ 408,527
Amortization	—	—	(279)	(279)
Foreign Currency Translation	3,363	—	—	3,363
Balance at December 31, 2013	$ 396,245	$ 15,366	$ —	$ 411,611
Additions	25,159	—	18,500	43,659
Amortization	—	—	(1,850)	(1,850)
Foreign Currency Translation	(5,468)	—	—	(5,468)
Balance at December 31, 2014	$ 415,936	$ 15,366	$ 16,650	$ 447,952

At December 31, 2014 and 2013, the Company had goodwill of $415.9 million and $396.2 million, respectively, related to the Reinsurance segment. During the first quarter of 2014, Goodwill and Other Intangible Assets increased as a result of the completion of an acquisition. The transaction was accounted for using the acquisition method under which the Company recorded the identifiable assets and liabilities at their acquisition date fair values, and recorded the excess of consideration transferred over the net assets acquired as goodwill and intangible assets. The fair value of identifiable assets and liabilities acquired, as well as amounts recorded in the Company's consolidated results since the acquisition date, are not material.

The estimated fair values of the Reinsurance Segment reporting units' carried goodwill exceeded their estimated net book values at December 31, 2014, and therefore no impairments were recorded during 2014. At December 31, 2014 and 2013, the ending goodwill balance is comprised of gross goodwill of $1.8 billion, offset by accumulated impairment charges of $1.4 billion.

The Company tests goodwill for impairment on an annual basis, as of June 30, during the third quarter, and on an interim basis when certain events or circumstances exist. The Company tests for impairment at the reporting unit level in accordance with the authoritative guidance on intangibles and goodwill. For the Reinsurance segment, in which all the Company's goodwill resides, a reporting unit is one level below the business segment, while for Insurance, the segment traditionally was also the reporting unit. The first step is to identify potential impairment by comparing the estimated fair value of a reporting unit to its estimated book value, including goodwill. The fair value of each reporting unit is derived based upon valuation techniques and assumptions the Company believes market participants would use to value the business. The Company then compares this estimated fair value to the book value of the reporting units, which it derives by estimating the amount of shareholders' equity required to support the activities of each reporting unit. The estimated fair values of the reporting units are generally determined utilizing methodologies that incorporate price-to-net-tangible-book and price-to-earnings multiples of certain comparable companies in the industry, from an operational and economic standpoint. If such individual reporting unit estimated fair values - combined with an estimate of an appropriate control premium - exceed their related individual reporting unit net book values, goodwill for those individual reporting units is not deemed to be impaired. A control premium represents the value an investor would pay above non-controlling interest transaction prices in order to obtain a controlling interest in the respective company.

However, if the margin calculated between the estimated reporting unit fair value and its net book value indicates a potential impairment or a “close call”, a further analysis of the reporting unit’s estimated fair value is performed, using an entity-specific discounted cash flow methodology. This methodology establishes fair value by estimating the present value of the projected future cash flows to be generated from the reporting unit. The discount rate applied to the projected future cash flows to arrive at the present value is intended to reflect all risks of ownership and the associated risks of realizing the stream of projected future cash flows. The discounted cash flow methodology uses the Company’s projections of financial performance for a ten-year period combined with an estimated terminal value. The most significant assumptions used in the discounted cash flow methodology are the discount rate, the terminal value and expected future revenues, gross margins and operating margins, which vary among reporting units. If the individual reporting units' net book values exceed their related individual reporting unit estimated fair values based on this additional methodology, the second step of the goodwill impairment testing process is performed to measure the amount of impairment.

10. Reinsurance

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 property and casualty operations is shown below:

	Premiums Written Year Ended December 31,			Premiums Earned Year Ended December 31,		
(U.S. dollars in thousands)	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**
Direct	$ 5,450,868	$ 5,050,953	$ 4,733,516	$ 5,173,403	$ 4,966,207	$ 4,604,323
Assumed	2,310,621	2,365,839	2,441,612	2,343,329	2,363,261	2,393,490
Ceded	(1,994,280)	(1,512,810)	(1,218,109)	(1,799,294)	(1,315,369)	(1,231,835)
Net	$ 5,767,209	$ 5,903,982	$ 5,957,019	$ 5,717,438	$ 6,014,099	$ 5,765,978

The Company recorded reinsurance recoveries on losses and loss expenses incurred of $0.7 billion, $0.7 billion and $0.6 billion for the years ended December 31, 2014, 2013 and 2012, respectively.

The following table presents an analysis of total unpaid losses and loss expenses and future policy benefit reserves recoverable for the year ended December 31:

(U.S. dollars in thousands)	**2014**	**2013**
P&C Operations	$ 3,411,526	$ 3,414,735
Corporate and Other	17,842	20,495
Total unpaid losses and loss expenses recoverable	$ 3,429,368	$ 3,435,230

At December 31, 2014 and 2013, the total reinsurance assets of $3.6 billion and $3.6 billion, respectively, included reinsurance receivables for paid losses and loss expenses of $131.5 million and $118.9 million, respectively, with $3.4 billion and $3.4 billion relating to the ceded reserve for losses and loss expenses, including ceded losses incurred but not reported for each year end. Although the contractual obligation of individual reinsurers to pay their reinsurance obligations is based on specific contract provisions, the collectibility 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 its ability to meet these obligations and, while it may continue to acknowledge its contractual obligation to do so, it may not have the financial resources or willingness to fully meet its obligations to the Company.

At December 31, 2014 and 2013, the allowance for uncollectible reinsurance relating to both reinsurance balances receivable and unpaid losses and loss expenses recoverable was $64.4 million and $85.5 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 recoverables. 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 $2.0 billion and $1.8 billion at December 31, 2014 and 2013, respectively, collateralizing reinsurance recoverables with respect to certain reinsurers.

Default factors require considerable judgment and are determined using the current financial strength rating, or rating equivalent, of each reinsurer as well as other key considerations and assumptions. The total allowance recorded relating to reinsurance recoverables was $42.3 million and $41.4 million at December 31, 2014 and 2013, respectively.

The Company uses an aging analysis to estimate uncollectible reinsurance balances receivable relating to paid losses in addition to recording allowances relating to any specific balances with known collectibility issues, irrespective of aging. The balances are aged from the date the expected recovery was billed to the reinsurer. Provisions are applied at specified percentages of the outstanding balances based upon the aging profile. Allowances otherwise required as a result of the aging process may not be recorded to the extent that specific facts and circumstances exist that lead management to believe that amounts will ultimately be collectible. The total allowance recorded relating to reinsurance balances receivable was $22.1 million and $44.2 million at December 31, 2014 and 2013, respectively.

At December 31, 2014, the use of different assumptions within the model could have a material effect on the bad debt provision reflected in the Company's Consolidated Financial Statements. To the extent the creditworthiness of the Company's reinsurers was to deteriorate due to an adverse event affecting the reinsurance industry, such as a large number of major catastrophes, actual uncollectible amounts could be significantly greater than the Company's bad debt provision. Such an event could have a material adverse effect on the Company's financial condition, results of operations, and cash flows.

At December 31, 2014 and 2013, approximately 93% and 90%, respectively, of the total unpaid loss and loss expense recoverable and reinsurance balances receivable, net of collateral held, outstanding was due from reinsurers with a financial strength rating of "A" or better. The following is an analysis of the total recoverable and reinsurance balances receivable, net of collateral held, at December 31, 2014, by reinsurers owing 3% or more of such total:

Name of Reinsurer	Reinsurer Financial Strength Rating	% of Total
Munich Reinsurance Co.	AA-/Stable	10.5%
Swiss Reinsurance Co.	AA-/Stable	8.8%
Transatlantic Reinsurance Co.	A+/Stable	8.1%
Swiss Re Europe S.A.	AA-/Stable	7.7%
Arch Reinsurance Co.	A+/Stable	6.3%
Lloyd's Syndicates	A+/Stable	5.1%
AXIS Reinsurance Co.	A+/Stable	4.6%

The following table sets forth the ratings profile of the reinsurers that support the unpaid loss and loss expense recoverable and reinsurance balances receivable, net of collateral, at December 31, 2014:

Reinsurer Financial Strength Rating	% of Total
AAA	0.1%
AA	42.0%
A	50.4%
BBB	0.4%
Captives	5.4%
Other	1.7%
Total	100.0%

In addition, under the terms of the transaction as described in Note 3, "Sale of Life Reinsurance Subsidiary," the Company has reinsured $4.3 billion of its future policy benefit reserves. Based upon the contractual right of offset, future policy benefit reserves recoverable are netted against the funds withheld liability owing to GCLR. See Note 14, "Funds Withheld on Life Retrocession Arrangements," for further information.

11. Losses and Loss Expenses

Unpaid losses and loss expenses for the indicated years ended December 31 are comprised of:

(U.S. dollars in thousands)	2014	2013
Reserve for reported losses and loss expenses	$ 7,461,444	$ 8,149,501
Reserve for losses incurred but not reported	11,891,799	12,331,564
Unpaid losses and loss expenses	$ 19,353,243	$ 20,481,065

Net losses and loss expenses incurred for the years indicated are comprised of:

(U.S. dollars in thousands)	2014	2013	2012
Loss and loss expenses payments	$ 4,499,642	$ 4,496,802	$ 4,673,998
Change in unpaid losses and loss expenses	(514,406)	(71,901)	(297,660)
Change in unpaid losses and loss expenses recoverable	(48,536)	(24,774)	279,900
Paid loss recoveries	(678,307)	(668,663)	(890,756)
Net losses and loss expenses incurred	$ 3,258,393	$ 3,731,464	$ 3,765,482

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

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

(a) Prior year net losses incurred

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

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

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

Insurance Segment

The following table summarizes the net (favorable) adverse prior year development by line of business relating to the Insurance segment for the indicated years ended December 31:

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

Net favorable prior year development of $99.8 million for the Insurance segment for the year ended December 31, 2014 was attributable to the following:

- For property lines, net prior year development was $57.5 million favorable driven by better than expected loss experience reported for the non-catastrophe exposures predominantly in the 2013 accident year. It was also driven by a reduction of $21.1 million in prior year catastrophe losses primarily in the 2011 accident year.
- For casualty lines, net prior year development was $38.4 million unfavorable. This was driven by a strengthening of $34.9 million in the U.S. environmental portfolio, $33.3 million in the Lloyd’s middle market book and $26.4 million in the U.S. primary casualty lines mainly as a result of reflecting the worse than expected loss experience reported across the 2008 to 2013 accident years. These deteriorations were partially offset by releases of $28.1 million in the international primary casualty lines and $28.6 million in the excess casualty book driven by better than expected loss experience reported across the 2002 and prior accident years in the case of the former and in aggregate for the latter.
- For professional lines, net prior year development was $17.1 million unfavorable predominantly as a result of worse than expected loss experience reported in the core U.S. book that drove a strengthening of $40.9 million. This strengthening was partially offset by release of $21.8 million in the core Bermuda book due mainly to better than expected loss experience reported across the 2010 and prior accident years in aggregate.
- For specialty lines, net prior year development was $82.8 million favorable driven by a release of $61.9 million in the aerospace book due principally to better than expected loss experience reported across the 2012 and prior accident years. It was also driven by a release of $12.2 million in the discontinued international political risk portfolio arising predominantly from a review of the contracts remaining on risk, the contracts that have expired with no claims notified and the single open claim. In addition, our estimate of prior year catastrophe losses was reduced by $5.6 million related primarily to Hurricane Rita in the marine book.
- For other lines, net prior year development was $15.0 million favorable driven by better than expected loss experience reported across various discontinued lines in aggregate including the favorable settlement of a 2003 claim.

Net favorable prior year reserve development of $102.0 million for the year ended December 31, 2013 was attributable to releases of $140.7 million in specialty, $46.4 million in property, $21.8 million in casualty, partially offset by a strengthening of $75.0 million in professional and $31.9 million in other. Specialty benefited from releases in aerospace, marine and specie, due primarily to reflecting the better than expected loss experience reported predominantly across the 2005 and later accident years, plus a reduction in the Bermuda discontinued political risk book as a result of a review of the open claims and remaining exposure. Better than expected loss experience reported for non-catastrophe exposures primarily in the 2012 accident year led to a release in property, while casualty benefited from better than expected loss experience in the excess casualty book, partially offset by adverse development in the U.S. environmental book and worse than expected loss experience in the Lloyd's middle market book. Worse than expected loss experience in the core U.S. and international professional books led to a strengthening of reserves in professional, as well as deterioration in the discontinued environmental book impacting casualty and the discontinued surety book in other lines.

Net favorable prior year reserve development of $140.1 million for the Insurance segment for the year ended December 31, 2012 was attributable to releases of $106.4 million in professional, $61.8 million in specialty, $61.6 million in casualty and $46.7 million in property, partially offset by a strengthening of $136.4 million in other. Professional benefited from releases in reserves for clash losses (which cover a number of substantially similar claims against multiple policyholders) totaling $120.8 million, partially offset by worse than expected loss experience reported in the design portfolio. Better than expected loss experience reported for the non-catastrophe exposures in the aerospace, specie, product recall and Lloyd’s discontinued political risk books led to the release in specialty, while property benefited from favorable reported loss activity

for both the catastrophe and non-catastrophe exposures. The release in casualty was mainly related to better than expected loss experience reported in both the primary and excess books, partially offset by adverse development in U.S. middle markets. Continued worse than expected loss experience reported in the excess and surplus lines, and adverse development in the programs and discontinued surety books drove the strengthening in other lines.

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

Reinsurance Segment

The following table summarizes the net (favorable) adverse prior year development by line of business relating to the Reinsurance segment for the indicated years ended December 31:

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

Net favorable prior year reserve development for the Reinsurance segment of $155.3 million for the year ended December 31, 2014 was attributable to the following:

- Net favorable prior year development for the short-tailed lines totaled $85.3 million. Details of the significant components are as follows:
  - For property catastrophe lines, net prior year development was $12.4 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.
  - For property other lines, net prior year development was $63.4 million favorable primarily due to better than expected development on attritional losses.
  - For marine and aviation lines, net prior year development was $34.4 million favorable comprising of $37.7 million better than expected development on attritional losses mainly in the International portfolio, partially offset by $3.3 million unfavorable development on major catastrophe and large losses.
- Net favorable prior year development for the long-tailed lines totaled $70.0 million. Details of the significant components are as follows:
  - For casualty lines, net prior year development was $44.3 million favorable due to better than expected development on attritional losses mainly in Europe and North America portfolios being partially offset by an increase on large claims and worse than expected development on attritional losses in Latin America.
  - For other lines, net prior year development was $25.7 million favorable comprising of $22.7 million better than expected development on attritional losses mainly in Bermuda and North America and a $3.0 million favorable development on major catastrophe and large losses.

Net favorable prior year reserve development of $187.9 million for the year ended December 31, 2013 was attributable to releases of $136.9 million for the short-tailed lines and $50.9 million for the long-tailed lines. The short-tailed lines benefited from $60.0 million in favorable property catastrophe development, $57.3 million in favorable property other lines releases and $19.6 million in favorable marine and aviation development. The release in long-tailed lines was due to $72.2 million in favorable casualty development partially offset by $21.3 million in unfavorable other lines development.

Net favorable prior year reserve development of $175.8 million for the year ended December 31, 2012 was attributable to releases of $107.6 million for the short-tailed lines and $68.2 million for the long-tailed lines. The short-tailed lines benefited from $16.5 million in favorable property catastrophe development, $49.0 million in favorable property other lines releases and $42.2 million in favorable marine and aviation development. The release in long-tailed lines was due to $60.3 million in favorable casualty development and an additional $7.9 million in favorable other lines development mainly driven by an $8.4 million release on the Structured Indemnity book.

The nature of the Company's high excess of loss liability and catastrophe business can result in loss events that are both irregular and significant. Similarly, adjustments to reserves for individual years can be irregular and significant. Such adjustments are part of the normal course of business for the Company. 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.

(b) Loss Reserve Discounting

Except for certain workers' compensation (including long term disability) liabilities and certain bodily injury liability claims, emanating from U.K. exposures, predominantly from the U.K. motor liability portfolio, the Company does not discount its unpaid losses and loss expenses.

The Company utilizes tabular reserving for workers' compensation (including long-term disability) unpaid losses that are considered fixed and determinable, and discounts such losses using an interest rate of 5% in 2014 and 2013. The interest rate approximates the average yield to maturity on specific fixed income investments that support these liabilities. The tabular reserving methodology results in applying uniform and consistent criteria for establishing expected future indemnity and medical payments (including an explicit factor for inflation) and the use of mortality tables to determine expected payment periods. The workers' compensation unpaid losses and loss expenses, net of reinsurance, at December 31, 2014 and 2013 on an undiscounted basis were $566.2 million and $609.1 million, respectively. For those claims subject to tabular discounting, the corresponding undiscounted amounts, at December 31, 2014 and 2013, were $515.4 million and $551.6 million, respectively. The tabular discounted unpaid losses and loss expenses were $266.4 million and $274.6 million at December 31, 2014 and 2013, respectively.

The Company records a specific reserve allowance for Periodical Payment Orders ("PPO") related to bodily injury liability claims. This allowance includes the unpaid losses for claims already settled and notified as PPO 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.

(c) Discontinued Asbestos and Run-Off Environmental Related Claims

The Company's reserving process includes a continuing evaluation of the potential impact on unpaid liabilities from exposure to discontinued asbestos and run-off environmental claims, including related loss adjustment expenses. Liabilities are established to cover both known and incurred but not reported claims. The Company's reserving and exposures to environmental liability business currently written within the NAPC and IPC business groups are not included in this note, which only relates to specific discontinued and/or run-off coverages that were not originally written specifically to cover environmental hazards.

The Company's exposure to discontinued asbestos and run-off environmental claims arises from the following three sources:

(1) Reinsurance contracts written, both on a proportional and excess basis, after 1972. The Company discontinued writing contracts with these exposures in 1985. Business written was across many different policies, each with a relatively small contract limit. The Company's reported asbestos claims relate to both traditional products and premises and operations coverage.

(2) Winterthur – business of Winterthur purchased by the Company from AXA Insurance (formerly Winterthur Swiss Insurance Company) in 2001. Pursuant to the Sale and Purchase Agreement and related agreements, AXA Insurance reimburses the Company for all asbestos losses.

(3) During 2006, the Company acquired $40.2 million in losses through a loss portfolio transfer contract of which $18.3 million in losses related to asbestos and environmental claims. Given the terms of the policy, the combined aggregate limit on the total acquired reserves is limited to $60.0 million, not including coverage for claims handling costs over a defined period.

A reconciliation of the opening and closing unpaid losses and loss expenses related to discontinued asbestos and run-off environmental exposure claims for the years indicated is as follows:

Year ended December 31, *(U.S. dollars in thousands)*	**2014**	**2013**	**2012**
Net unpaid losses and loss expenses at beginning of year	$ 80,435	$ 78,315	$ 77,778
Net incurred losses and loss expenses	8,903	6,257	6,558
Less net paid losses and loss expenses	7,922	4,137	6,021
Net increase (decrease) in unpaid losses and loss expenses	$ 981	$ 2,120	$ 537
Net unpaid losses and loss expenses at end of year	81,416	80,435	78,315
Unpaid losses and loss expenses recoverable at end of year	100,537	115,090	123,799
Gross unpaid losses and loss expenses at end of year	$ 181,953	$ 195,525	$ 202,114

Reserves for incurred but not reported losses, net of reinsurance, included in the above table were $49.3 million, $48.6 million and $52.2 million at December 31, 2014, 2013 and 2012, respectively. Unpaid losses recoverable are net of potential uncollectible amounts.

At December 31, 2014, the Company had 1,399 open claim files for potential discontinued asbestos claims exposures and 459 open claim files for potential run-off environmental claims exposures. Approximately 46%, 37% and 42% of the open claim files are due to precautionary claim notices in 2014, 2013 and 2012, respectively. Precautionary claim notices are submitted by the ceding companies in order to preserve their right to receive coverage under the reinsurance contract. The increase in open claim files during 2014 was largely due to internal changes in how claims reported in previous years were classified, which resulted in a higher number of precautionary claims opened during the year.

Such notices do not contain an incurred loss amount to the Company. The development of the number of open claim files for potential discontinued asbestos and run-off environmental claims, including precautionary claims, is as follows:

	Asbestos Claims	**Environmental Claims**
Total number of claims outstanding at December 31, 2011	1,038	362
New claims reported in 2012	236	60
Claims resolved in 2012	(201)	(68)
Total number of claims outstanding at December 31, 2012	1,073	354
New claims reported in 2013	178	34
Claims resolved in 2013	(154)	(50)
Total number of claims outstanding at December 31, 2013	1,097	338
New claims reported in 2014	456	190
Claims resolved in 2014	(154)	(69)
Total number of claims outstanding at December 31, 2014	1,399	459

The Company's reserving process includes a continuing evaluation of the potential impact on unpaid liabilities from exposure to discontinued asbestos and run-off environmental claims, including related loss adjustment expenses. Liabilities are established to cover both known and incurred but not reported claims.

The estimation of loss and loss expense liabilities for discontinued asbestos and run-off environmental exposures is subject to much greater uncertainty than is normally associated with the establishment of liabilities for certain other exposures due to several factors, including: (i) uncertain legal interpretation and application of insurance and reinsurance coverage and liability; (ii) the lack of reliability of available historical claims data as an indicator of future claims development; (iii) an uncertain political climate which may impact, among other areas, the nature and amount of costs for remediating waste sites; and (iv) the potential of insurers and reinsurers to reach agreements in order to avoid further significant legal costs. Due to the potential significance of these uncertainties, the Company believes that no meaningful range of loss and loss expense liabilities beyond recorded reserves can be established. As the Company's net unpaid loss and loss expense reserves related to discontinued asbestos and run-off environmental exposures are less than 1% of the total net reserves at December 31, 2014 and 2013, further adverse development is not expected to be material to the Company's overall net loss reserves. The Company believes it has made reasonable provision for its discontinued asbestos and run-off environmental exposures and is unaware of any specific issues that would significantly affect its estimate for loss and loss expenses.

12. Deposit Liabilities

The Company has entered into certain insurance and reinsurance policies that transfer insufficient risk under GAAP to be accounted for as insurance or 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 6, “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.

At December 31, 2014 and 2013, total deposit liabilities were $1.2 billion and $1.5 billion, respectively. For the years ended December 31, 2014, 2013 and 2012, interest expense of $12.9 million, $48.0 million and $66.3 million, respectively, was recorded related to the accretion of deposit liabilities. During the second quarter of 2014, the Company negotiated the termination of one of its larger structured indemnity contracts and as a result a net decrease of $28.7 million was recorded to interest expense. See Note 16, “Derivative Instruments,” for further information.

13. Future Policy Benefit Reserves

Future policy benefit reserves are comprised of the following:

Year ended December 31 *(U.S. dollars in thousands)*		**2014**		**2013**
Traditional Life	$	789,133	$	827,341
Annuities		3,918,066		3,976,475
Total future policy benefit reserves	$	4,707,199	$	4,803,816

The Company entered into long duration contracts that subject the Company to mortality and morbidity risks and that 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. At December 31, 2014 and 2013, the average interest rate used for the determination of the future policy benefits for these contracts was 3.3% and 4.4%, respectively. Total future policy benefit reserves for the years ended December 31, 2014 and 2013 were $4.7 billion and $4.8 billion, respectively. The net decrease, during 2014, in the total future policy benefit reserves was from normal course releases on single premium annuities in line with the benefits paid and mortality of underlying policyholders, which has been partially offset by foreign exchange movements.

Under the terms of the transaction described in Note 3, "Sale of Life Reinsurance Subsidiary," the Company has reinsured $4.3 billion of its future policy benefit reserves. Based upon the contractual right of offset, future policy benefit reserves recoverable are netted against the funds withheld liability owing to GCLR. See Note 14, “Funds Withheld on Life Retrocession Arrangements,” for further information.

14. Funds Withheld on Life Retrocession Arrangements

Under the terms of the transaction as described in Note 3, "Sale of Life Reinsurance Subsidiary," 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:

(U.S. dollars in thousands)		**2014**
Assets held on a funds withheld basis relating to the Life Retro Arrangements	$	5,420,694
Reinsurance recoverable from GCLR		(4,265,678)
Funds withheld on life retrocession arrangements (net of future policy benefit reserves recoverable)	$	1,155,016

15. Notes Payable and Debt and Financing Arrangements

At December 31, the Company's financing structure, which includes senior unsecured notes, bank and loan facilities available from a variety of sources, including commercial banks, and letter of credit facilities was as follows:

	2014		2013	
(U.S. dollars in thousands)	Commitment/ Debt	In Use/ Outstanding (1)	Commitment/ Debt	In Use/ Outstanding (1)
Debt:				
5-year revolver expiring 2018	$ 1,000,000	$ —	$ 1,000,000	$ —
5.25% Senior Notes due 2014	—	—	600,000	599,346
2.30% Senior Notes due 2018	300,000	297,344	300,000	296,683
5.75% Senior Notes due 2021	400,000	397,092	400,000	396,661
6.375% Senior Notes due 2024	350,000	348,920	350,000	348,811
6.25% Senior Notes due 2027	325,000	323,062	325,000	322,905
5.25% Senior Notes due 2043	300,000	296,162	300,000	296,030
Total debt	$ 2,675,000	$ 1,662,580	$ 3,275,000	$ 2,260,436
Adjustment to carrying value – impact of fair value hedges		—		2,767
Total debt carrying value	$ 2,675,000	$ 1,662,580	$ 3,275,000	$ 2,263,203
Letters of Credit:				
Total letters of credit	$ 3,575,000	$ 1,790,561	$ 3,575,000	$ 1,895,425

____
(1) "In Use" and "Outstanding" data represent December 31, 2014 and 2013 accreted values.

(a) Notes Payable and Debt

All outstanding debt of the Company at December 31, 2014 and 2013, which is identified in the table above, was issued by XL-Cayman, a 100% owned subsidiary of XL-Ireland and the only direct subsidiary thereof. XL-Ireland does not have significant assets or operations independent of XL-Cayman. XL-Cayman's outstanding debt is fully and unconditionally guaranteed by XL-Ireland. The ability of XL-Cayman, like that of the Company, to obtain funds from its subsidiaries to satisfy any of its obligations is subject to certain contractual restrictions, applicable laws and statutory requirements of the various countries in which the Company operates, including, among others, Bermuda, the United States, Ireland, Switzerland and the United Kingdom. For details of the required statutory capital and surplus for the principal operating subsidiaries of the Company, see Note 25, "Statutory Financial Data."

On September 15, 2014, the $600 million principal amount outstanding on the 5.25% Senior Notes issued by XL-Cayman was repaid at maturity.

The Company was in compliance with all covenants by significant margins at December 31, 2014 and 2013, and the Company currently remains in compliance with all covenants.

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

The Company has several letter of credit facilities provided on both syndicated and bilateral bases from commercial banks. These facilities are utilized primarily to support non-admitted insurance and reinsurance operations in the U.S. and capital requirements at Lloyd's. The Company's letter of credit facilities and revolving credit facilities at December 31 were as follows:

(U.S. dollars in thousands)	2014 (1)	2013 (1)
Revolving credit facility (2)	$ 1,000,000	$ 1,000,000
Available letter of credit facilities – commitments (3)	$ 3,575,000	$ 3,575,000
Available letter of credit facilities – in use	$ 1,790,561	$ 1,895,425
Collateralized by certain assets of the Company's investment portfolio	66.2%	67.6%

____
(1) At December 31, 2014, there were eight available letter of credit facilities; at December 31, 2013, there were seven available letter of credit facilities.

(2) At December 31, 2014 and 2013, the revolving credit available under the Syndicated Credit Agreements (as defined below) and under the December 9, 2011 unsecured credit agreement, respectively, was unutilized. The 2013 Citi Agreements (as defined below) provide for issuance of letters of credit and revolving credit loans in an aggregate amount of up to $575 million. At December 31, 2014, $575 million of letters of credit were issued under the 2013 Citi Agreements and therefore such amount is not included here.
(3) The Company has the option to increase the size of the facilities under the Syndicated Credit Agreements by an additional $500 million across such facilities. The Company also has the option to increase the maximum amount of the letters of credit and revolving credit loans available under the 2013 Citi Agreements, with the lender's and issuing lender's consent.

In November 2013, the Company (i) entered into two new credit agreements (together, the "Syndicated Credit Agreements"), which provided for an aggregate amount of outstanding letters of credit and revolving credit loans of up to $2 billion, subject to certain options to increase the size of the facilities, and (ii) terminated the secured credit agreements dated March 25, 2011 and December 9, 2011, and the unsecured credit agreement dated December 9, 2011, which had provided for an aggregate amount of outstanding letters of credit and revolving credit loans of up to $3 billion.

The Syndicated Credit Agreements consist of (i) a secured credit agreement, which provides for the issuance of letters of credit in an aggregate amount of up to $1 billion, and (ii) an unsecured credit agreement, which provides for the issuance of letters of credit and revolving credit loans in an aggregate amount of up to $1 billion. The Company 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 secured portion of the Syndicated Credit Agreements is subject to a borrowing base requirement, determined on the basis of specified percentages of the face value of eligible categories of assets varying by type of collateral. In the event that such credit support is insufficient, the Company 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 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 the loss experience of such business.

On May 7, 2013, XL-Cayman entered into a new credit agreement with Citicorp USA, Inc., as administrative agent and issuing lender, and the lenders party thereto, and a continuing agreement for standby letters of credit with Citibank, N.A. On May 13, 2013 and May 15, 2013, XL-Cayman entered into a first amendment and second amendment, respectively, to such credit agreement (as amended, the “May 2013 Credit Agreement”).

On August 6, 2013, XL-Cayman entered into a new credit agreement with Citicorp USA, Inc., as administrative agent and issuing lender, and the lenders party thereto and a continuing agreement for standby letters of credit with Citibank, N.A. On September 12, 2013, XL-Cayman entered into a first amendment to such credit agreement (as amended, the “August 2013 Credit Agreement”).

Additionally, on November 4, 2013, XL-Cayman entered into a new credit agreement with Citicorp USA, Inc., as administrative agent and issuing lender, and the lenders party thereto and a continuing agreement for standby letters of credit with Citibank, N.A. (the "November 2013 Credit Agreement" and, together with the May 2013 Credit Agreement and the August 2013 Credit Agreement, the "2013 Citi Agreements").

Collectively, the 2013 Citi Agreements and the continuing agreements for standby letters of credit provide for the issuance of letters of credit and revolving credit loans in an aggregate amount of up to $575 million. XL-Cayman has the option to increase the maximum amount of letters of credit and revolving credit loans available under the 2013 Citi Agreements with the lender's and issuing lender's consent.

The commitments under the 2013 Citi Agreements expire on, and such credit facilities are available until, the earlier of (i) June 20, 2015 (with respect to the May 2013 Credit Agreement), September 20, 2015 (with respect to the August 2013 Credit Agreement) and December 20, 2016 (with respect to the November 2013 Credit Agreement) and (ii) the date of termination in whole of the commitments upon an optional termination or reduction of the commitments by the account parties or upon the occurrence of certain events of default.

On December 30, 2014, XLIB reduced the commitments available under a continuous letter of credit facility between XL Insurance (Bermuda) Ltd. and Citibank Europe plc from $750 million to $600 million simultaneous with XL Insurance (Bermuda) Ltd. entering into a continuous $150 million letter of credit facility with ING Bank N.V., London Branch.

In addition to letters of credit, 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"), which are 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.

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 Company's Board of Directors. The Company recognizes all derivatives as either assets or liabilities in the balance sheets 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 (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(h), “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 sheets at December 31, 2014 and 2013:

	2014				2013			
(U.S. dollars in thousands)	Asset Derivative Notional Amount	Asset Derivative Fair Value (1)	Liability Derivative Notional Amount	Liability Derivative Fair Value (1)	Asset Derivative Notional Amount	Asset Derivative Fair Value (1)	Liability Derivative Notional Amount	Liability Derivative Fair Value (1)
Derivatives designated as hedging instruments:								
Foreign exchange contracts	$ 2,300,609	$ 121,862	$ 302,211	$ 2,936	$ 1,005,610	$ 26,098	$ 2,572,227	$ 70,462
Total derivatives designated as hedging instruments	$ 2,300,609	$ 121,862	$ 302,211	$ 2,936	$ 1,005,610	$ 26,098	$ 2,572,227	$ 70,462
Derivatives not designated as hedging instruments:								
Investment Related Derivatives:								
Interest rate exposure	$ 394,597	$ 206	$ 20,782	$ 51	$ 30,702	$ 266	$ 10,259	$ 8
Foreign exchange exposure	7,385	403	288,376	4,724	17,497	12	50,614	680
Credit exposure	2,408	165	14,270	9,836	—	—	340,020	15,128
Financial market exposure	46,145	360	33,670	34	58,232	1,111	14,821	77
Financial Operations Derivatives: (2)								
Credit exposure	—	—	—	—	—	—	44,234	4,190
Other Non-Investment Derivatives:								
Credit exposure	31,060	60	—	—	—	—	—	—
Guaranteed minimum income benefit contract	46,249	13,603	46,249	13,603	—	—	53,564	14,940
Modified coinsurance funds withheld contract (3)	64,947	—	5,401,278	—	66,369	—	—	—
Total derivatives not designated as hedging instruments	$ 592,791	$ 14,797	$ 5,804,625	$ 28,248	$ 172,800	$ 1,389	$ 513,512	$ 35,023

____

(1) Derivative instruments in an asset or liability position are included within Other assets or Other liabilities, respectively, in the balance sheets on a net basis where the Company has both a legal right of offset and the intention to settle the contracts on a net basis.

(2) Financial operations derivatives represent interests in variable interest entities as described in Note 18, “Variable Interest Entities".

(3) The fair value movements in derivative assets and liabilities relating to modified coinsurance funds withheld contracts are included within the associated asset or liability at each period end on the face of the balance sheets. Notional amounts associated with reinsurance agreements under which the Company assumes reinsurance risk are recorded as asset derivative notional amounts. Notional amounts associated with the Life Retro Arrangements under which the Company cedes reinsurance risk are recorded as liability derivative notional amounts. Included in the liability derivative notional amount at December 31, 2014 is the cumulative net realized and unrealized loss on life retrocession embedded derivative of $450.8 million.

The following table summarizes information on the gross and net amounts of derivative fair values and associated collateral received related to derivative assets or paid relating to derivative liabilities contained in the consolidated balance sheets at December 31, 2014 and 2013:

				Gross Amounts Not Offset in the Balance Sheets		
December 31, 2014 *(U.S. dollars in thousands)*	**Gross Amounts Recognized in the Balance Sheets**	**Gross Amounts Offset in the Balance Sheets**	**Net Amounts in the Balance Sheets**	**Financial Instruments**	**Cash Collateral**	**Net Amounts**
Derivative Assets	$ 136,659	$ 696	$ 135,963	$ —	$ 78,580	$ 57,383
Derivative Liabilities	$ 31,184	$ 696	$ 30,488	$ —	$ —	$ 30,488
December 31, 2013 *(U.S. dollars in thousands)*						
Derivative Assets	$ 27,487	$ 1,342	$ 26,145	$ —	$ —	$ 26,145
Derivative Liabilities	$ 105,485	$ 1,342	$ 104,143	$ —	$ 19,847	$ 84,296

Derivative instruments in an asset or liability position are included within Other assets or Other liabilities, respectively, in the balance sheets on a net basis where the Company has both a legal right of offset and the intentions to settle the contracts on a net basis. The Company often enters into different types of derivative contracts with a single counterparty and these contracts are covered under netting agreements. At December 31, 2014, the Company held cash collateral related to foreign currency derivative positions and certain other derivative positions of $78.6 million. At December 31, 2013, the Company paid cash collateral related to foreign currency derivative positions and certain other derivative positions of $19.8 million. The assets and liability related to the net collateral paid or held were recorded as Other assets and Other liabilities, respectively, within the balance sheets as the collateral and derivative positions are not intended to be settled on a net basis.

(a) Derivative Instruments Designated as Fair Value Hedges

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 Company may hedge portions of its liabilities against changes in the applicable designated benchmark interest rate. Interest rate swaps may also be used to hedge the changes in fair value of certain fixed rate liabilities and fixed income securities due to changes in the designated benchmark interest rate. In addition, the Company utilizes foreign exchange contracts to hedge the fair value of certain fixed income securities as well as to hedge certain net investments in foreign operations.

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 indicated:

		Hedged Items – Amount of Gain/(Loss) Recognized in Income Attributable to Risk		
Derivatives Designated as Fair Value Hedges *(U.S. dollars in thousands)*	**Gain/(Loss) Recognized in Income on Derivative**	**Deposit Liabilities**	**Fixed Maturity Investments**	**Ineffective Portion of Hedging Relationship – Gain/(Loss)**
Year Ended December 31, 2014				
Interest rate exposure	$ —			
Foreign exchange exposure	(15,663)			
Total	$ (15,663)	$ —	$ 15,407	$ (256)
Year Ended December 31, 2013				
Interest rate exposure	$ —			
Foreign exchange exposure	(22,568)			
Total	$ (22,568)	$ —	$ 23,065	$ 497
Year Ended December 31, 2012				
Interest rate exposure	$ 1,813			
Foreign exchange exposure	(24,183)			
Total	$ (22,370)	$ (6,182)	$ 23,967	$ (4,585)

The gains (losses) recorded on both the derivative instruments and specific items designated as being hedged as part of the fair value hedging relationships outlined above along with any associated ineffectiveness in the relationships are recorded through Net realized and unrealized gains (losses) on derivative instruments in the income statement. In addition, the periodic coupon settlements relating to the interest rate swaps are recorded as adjustments to net investment income for the hedges of fixed maturity investments.

The periodic coupon settlements also resulted in decreases to Interest expense of nil, nil and $4.9 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Settlement of Fair Value Hedges

A summary of the fair value hedges that have been settled and their impact on results during the indicated years ended December 31 as well as the remaining balance of fair value hedges and average years remaining to maturity are shown below:

Settlement of Fair Value Hedges – Summary *(U.S. dollars in thousands, except years)*	**Fair Value Hedges – Notes Payable and Debt December 31,**		**Fair Value Hedges – Deposit Liabilities December 31,**	
	2014	**2013**	**2014**	**2013**
Cumulative reduction to interest expense	$ 21,624	$ 18,856	$ 95,333	$ 37,382
Remaining balance	$ —	$ 2,767	$ 137,862	$ 195,814
Weighted average years remaining to maturity	0.0	0.7	23.2	22.7

During the second quarter of 2014, the Company negotiated the termination of one of its larger structured indemnity contracts. This contract had previously been designated as a fair value hedge that was settled. The remaining fair value adjustment of $47.0 million that was being amortized as a reduction of interest expense over the remaining term of the contract was recorded as an adjustment to interest expense at the termination date. As a result of the termination, a net decrease of $28.7 million was recorded to interest expense reflecting the realization of the remaining balance of the fair value hedge adjustment, partially offset by an accretion rate adjustment due to changes in cash flows.

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

The Company utilizes foreign exchange contracts to hedge the fair value of certain net investments in foreign operations. During the year ended December 31, 2014 and 2013, the Company entered into foreign exchange contracts that were formally designated as hedges of investments in foreign subsidiaries, the majority of which have functional currencies of either U.K. sterling or the Euro. There was no ineffectiveness in these transactions.

The following table provides the weighted average U.S. dollar equivalent of foreign denominated net assets that were hedged and the resulting derivative gain (loss) that was recorded in the foreign currency translation adjustment, net of tax, account within AOCI for the year ended December 31, 2014 and 2013.

Derivative Instruments Designated as Hedges of the Net Investment in a Foreign Operation – Summary
(U.S. dollars in thousands)

	2014	2013
Weighted average of U.S. dollar equivalent of foreign denominated net assets	$ 2,384,508	$ 2,648,137
Derivative gains (losses) (1)	$ 120,643	$ (27,392)

____
(1) Derivative gains (losses) from derivative instruments designated as hedges of the net investment in a foreign operation are recorded in the cumulative translation adjustment account within AOCI for each period.

(c) 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 derivatives in the income statement for the years ended December 31, 2014, 2013 and 2012:

Net Realized and Unrealized Gains (Losses) on Derivative Instruments
(U.S. dollars in thousands)

	2014	2013	2012
Investment Related Derivatives:			
Interest rate exposure	$ 15,959	$ 5,065	$ 4,394
Foreign exchange exposure	3,351	(948)	(1,084)
Credit exposure	400	(4,052)	(7,611)
Financial market exposure	411	6,302	3,073
Financial Operations Derivatives:			
Credit exposure	5,023	(2,437)	10,511
Other Non-Investment Derivatives:			
Credit exposure	—	—	—
Guaranteed minimum income benefit contract	2,257	10,457	(2,906)
Modified coinsurance funds withheld contract	2,741	(7,086)	3,429
Total derivatives not designated as hedging instruments	$ 30,142	$ 7,301	$ 9,806
Amount of gain (loss) recognized in income from ineffective portion of fair value hedges	(256)	497	(4,585)
Net realized and unrealized gains (losses) on derivative instruments	$ 29,886	$ 7,798	$ 5,221
Net realized and unrealized gains (losses on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	$ (488,222)	$ —	$ —

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

(d)(i) 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, commodity contracts, 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. When using cleared (exchange traded) derivatives, the Company is exposed to the credit risk of the applicable clearing house and of the Company's future commissions merchant. When using uncleared (over-the-counter) derivatives, the Company is exposed to credit risk in the event of non-performance by the counterparties under any derivative 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 net economic exposure to interest rate risks. The Company may also use interest rate swaps to convert certain liabilities from a fixed rate to a variable rate of interest or use them to convert a variable rate of interest from one basis to another.

Investment Related Derivatives – Foreign 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. 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.

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 (i.e., macro credit strategies rather than single-name credit hedging) or exposure to selected issuers, including issuers that are not held in the underlying fixed income portfolio.

Investment Related Derivatives – Financial Market Exposure

Stock index futures may be purchased within the Company's investment portfolio in order to create synthetic equity exposure and to add value to the portfolio with overlay strategies where market inefficiencies are believed to exist. From time to time, the Company may enter into other financial market exposure derivative contracts on various indices including, but not limited to, inflation and commodity contracts.

(d)(ii) Financial Operations Derivatives – Credit Exposure

At December 31, 2013, the Company held one financial operations credit derivative exposure, a European project finance loan participation that benefited from a deficiency guarantee from the German state and federal governments in the amount of 68%, which was written as part of the Company's previous financial lines business and is outside of the Company's investment portfolio.

During the fourth quarter of 2014, this credit derivative exposure was terminated. The Company has no continuing financial operations derivatives credit exposure.

(d)(iii) Other Non-Investment Derivatives

Other Non-Investment Derivatives - Credit Exposure

During the year ended December 31, 2014, the Company entered into a non-investment-related credit derivative relating to a number of reference pool mortgage tranches associated with actual mortgage loans which are securitized into agency mortgage-backed securities and sold as Structured Agency Credit Risk Notes. At December 31, 2014, there was no reported event of default on this obligation. At December 31, 2014, the notional outstanding related to the derivative was $31.1 million and the Company had recorded a derivative asset of $0.1 million. During the year ended December 31, 2014, the Company recorded Net realized and unrealized gains of $0.1 million relating to this credit derivative. The credit derivative is recorded at fair value based upon models developed by the Company. Significant unobservable inputs considered in the valuation include the impact of changes in interest rates, future default, delinquency and prepayment rates, credit spreads, changes in credit quality, and other market factors.

Guaranteed Minimum Income Benefit Contract

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 the guaranteed benefit over the account balance upon the policyholder's election to take the income benefit. The fair value of this derivative is determined based on the present value of expected cash flows.

Modified Coinsurance Funds Withheld Contract

The Company has modified coinsurance and funds withheld reinsurance agreements that provide for a return to be paid to the Company based on a portfolio of fixed income securities. As such, the agreements contain an embedded derivative. The embedded derivative is bifurcated from the funds withheld balance and recorded at fair value with changes in fair value recognized in earnings through Net realized and unrealized gains (losses) on derivative instruments.

Modified Coinsurance Funds Withheld Reinsurance Agreements - Life Retrocession Embedded Derivative

In addition, the Company has entered into Life Retro Arrangements as described in Note 2, "Significant Accounting Policies - (c) Investments - Investments Related to Life Retrocession Arrangements written on a Funds Withheld Basis" and " - (e) Reinsurance," and Note 3, "Sale of Life Reinsurance Subsidiary." The embedded derivative related to the Life Retro Arrangements is recorded at fair value with changes in fair value recognized in earnings through Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets.

The value of the life retrocession embedded derivative includes the interest income, realized and unrealized gains and losses on Life Funds Withheld Assets and certain related expenses subsequent to May 30, 2014 as follows:

Components of Life Retrocession Embedded Derivative and Derivative Instruments - Life Funds Withheld Assets:

(U.S. dollars in thousands)		2014
Interest income	$	(134,634)
Realized and unrealized gains (losses) on Life Funds Withheld Assets		(318,065)
Other		1,868
Net realized and unrealized gains (losses) on life retrocession embedded derivative	$	(450,831)
Net adjustments related to future policy benefit reserves, net of tax	$	(21,786)
Net realized and unrealized gains (losses) on derivative instruments - Life Funds Withheld Assets	$	(15,605)
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	$	(488,222)

(e) Contingent Credit Features

Certain derivative agreements entered into by the Company or its subsidiaries contain credit rating downgrade provisions that permit early termination of the agreements by the counterparty if collateral is not posted following failure to maintain certain credit ratings from one or more of the principal credit rating agencies. If the Company were required to early terminate such agreements due to a credit rating downgrade, it could potentially be in a net liability position at the time of settlement of such agreements. The aggregate fair value of all derivative agreements containing such rating downgrade provisions that were in a liability position and any collateral posted under these agreements at December 31 for the years indicated were as follows:

Contingent Credit Features - Summary:

(U.S. dollars in thousands)		2014		2013
Aggregate fair value of derivative agreements with downgrade provisions in a net liability position	$	5,770	$	47,703
Collateral posted to counterparty	$	—	$	13,260

17. Off-Balance Sheet Arrangements

There were no material off-balance sheet arrangements at December 31, 2014 and 2013.

18. 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.

The Company has a limited number of remaining outstanding credit enhancement exposures, including written financial guarantee and credit default swap contracts. The obligations related to these transactions are often securitized through VIEs. The Company is not the primary beneficiary of these VIEs as contemplated in current authoritative accounting guidance on the basis that management does not believe that the Company has the power to direct the activities, such as asset selection and collateral management, which most significantly impact each entity's economic performance. For further details on the nature of the obligations and the size of the Company's maximum exposure, see Note 16, “Derivative Instruments,” and Note 19(h), “Commitments and Contingencies – Financial Guarantee Exposures.”

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 focuses on providing third-party investors access to insurance-linked securities 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 Sheets as "Non-controlling interest in equity of consolidated subsidiaries" was $0.2 million and $0.3 million at December 31, 2014 and December 31, 2013, respectively.

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 $57.4 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.

19. 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 in the investment fixed income portfolio.

Reinsurance Assets

The Company’s reinsurance assets result 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. For further details regarding the Company’s reinsurance assets, see Note 10, “Reinsurance.”

Fixed Income Portfolio

The Company did not have an aggregate direct investment in any single corporate issuer in excess of 5% of the Company's shareholders' equity at December 31, 2014 and 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.

Broker credit risk

In addition, the Company underwrites a significant amount of its insurance and 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 insurance and reinsurance balances to the Company. During the three years ended December 31, 2014, 2013 and 2012, P&C gross written premiums generated from or placed by the below companies individually accounted for more than 10% of the Company's consolidated gross written premiums from P&C operations, as follows:

(Percentage of consolidated gross written premiums from P&C operations)	2014	2013	2012
AON Corporation and subsidiaries	18%	21%	22%
Marsh & McLennan Companies	20%	23%	21%
Willis Group and subsidiaries	11%	13%	11%

These brokers are large, well established companies and there are no indications that any of them are financially troubled. No other broker and no one insured or reinsured accounted for more than 10% of gross premiums written from P&C operations in any of the three years ended December 31, 2014, 2013 and 2012.

(b) Other Investments

The Company has committed to invest in several limited partnerships and provide liquidity financing to a structured investment vehicle. At December 31, 2014, the Company has commitments, which include potential additional add-on clauses, to invest an additional $107.3 million over a weighted average period of 7.7 years.

(c) Investments 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. At December 31, 2014, the Company has commitments, which include potential additional add-on clauses, to invest an additional $112.8 million over a weighted average period of 6.9 years.

(d) Properties

The Company rents space for certain of its offices under leases that expire through 2031. Total rent expense under operating leases for the years ended December 31, 2014, 2013 and 2012 was approximately $36.6 million, $38.7 million and $35.6 million, respectively. Future minimum rental commitments under existing operating leases are expected to be as follows:

Year Ended December 31, *(U.S. dollars in thousands)*	
2015	$ 36,949
2016	32,027
2017	28,933
2018	25,156
2019	24,086
2020-2031	73,269
Total minimum future rentals	$ 220,420

During 2003, the Company entered into a purchase, sale and leaseback transaction to acquire new office space in London. The Company has recognized a capital lease asset of $82.8 million and $94.4 million, and deferred a gain of $25.2 million and $28.7 million related to this lease at December 31, 2014 and 2013, respectively. The gain is being amortized to income in line with the amortization of the asset. The future minimum lease payments in the aggregate are expected to be $191.4 million and annually for the next five years are as follows:

Year Ended December 31, *(U.S. dollars in thousands)*		
2015	$	12,095
2016		12,398
2017		12,708
2018		13,025
2019		13,351
2020-2028		127,787
Total minimum future lease payments	$	191,364

(e) Tax Matters

XL-Ireland is an Irish corporation and, except as described below, neither it nor its non-U.S. subsidiaries have paid U.S. corporate income taxes on the basis that they are not engaged in a trade or business or otherwise subject to taxation in the United States. However, because definitive identification of activities that constitute being engaged in a trade or business in the United States is not provided by the Internal Revenue Code of 1986 ("IRS Code"), regulations or court decisions, there can be no assurance that the Internal Revenue Service will not contend that the Company or its non-U.S. subsidiaries are engaged in a trade or business or otherwise subject to taxation in the United States. If the Company or its non-U.S. subsidiaries were considered to be engaged in a trade or business in the United States (and, if the Company or such subsidiaries were to qualify for the benefits under the income tax treaty between the United States and Bermuda and other countries in which the Company operates, such businesses were considered to be attributable to a "permanent establishment" in the United States), the Company or such subsidiaries could be subject to U.S. tax at regular tax rates on their respective taxable income that is effectively connected with their U.S. trade or business plus an additional "branch profits" tax (at a rate as high as 30%) on such income remaining after the regular tax, in which case there could be a significant adverse effect on the Company's results of operations and financial condition.

(f) Letters of Credit

At December 31, 2014 and 2013, $1.8 billion and $1.9 billion of letters of credit were outstanding, of which 66.2% and 67.6%, respectively, were collateralized by the Company's investment portfolios, primarily supporting U.S. non-admitted business and the Company's Lloyd's syndicates' capital requirements.

(g) Litigation

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

Legal actions are subject to inherent uncertainties, and future events could change management's assessment of the probability or estimated amount of potential losses from pending or threatened legal actions. Based on available information, it is the opinion of management that the ultimate resolution of pending or threatened legal actions other than claims proceedings, both individually and in the aggregate, will not result in losses having a material adverse effect on the Company's financial position or liquidity at December 31, 2014.

If management believes that, based on available information, it is at least reasonably possible that a material loss (or additional material loss in excess of any accrual) will be incurred in connection with any legal actions, the Company discloses

an estimate of the possible loss or range of loss, either individually or in the aggregate, as appropriate, if such an estimate can be made, or discloses that an estimate cannot be made. Based on the Company's assessment at December 31, 2014, no such disclosures were considered necessary.

(h) Financial Guarantee Exposures

A summary of the Company's outstanding financial guarantee exposures for the years indicated is as follows:

Financial Guarantee Exposure Summary *(U.S. dollars in thousands except number of contracts and term to maturity)*	**2014**	**2013**
Opening number of financial guarantee contracts	3	4
Number of financial guarantee contracts matured, prepaid or commuted during the period	(1)	(1)
Closing number of financial guarantee contracts	2	3
Principal outstanding	$ 80,813	$ 108,255
Interest outstanding	$ —	$ —
Aggregate exposure outstanding	$ 80,813	$ 108,255
Total gross claim liability recorded	$ —	$ —
Total unearned premiums and fees recorded	$ —	$ 134
Weighted average contractual term to maturity in years	25.2	26.0

The Company's outstanding financial guarantee contracts at December 31, 2014 provide credit support for a variety of collateral types with the exposures comprised of a $80.8 million notional financial guarantee on two notes backed by zero coupon long dated bonds and bank perpetual securities, including some issued by European financials. At December 31, 2014, there were no reported events of default on these obligations.

Surveillance procedures to track and monitor credit deteriorations in the insured financial obligations are performed by the primary obligors for each transaction on the Company's behalf. Information regarding the performance status and updated exposure values is provided to the Company on a quarterly basis and evaluated by management in recording claims reserves.

20. Share Capital

(a) Authorized and Issued

The authorized share capital of XL-Ireland is $9,999,900 and €40,000, divided into: (i) 500,000,000 ordinary shares, par value $0.01 each, (ii) 499,990,000 undesignated shares, par value $0.01, each and (iii) 40,000 subscriber shares, par value €1 each. Holders of ordinary shares are entitled to one vote for each share.

Ordinary Shares

The following table is a summary of ordinary shares issued and outstanding:

(in thousands)	**2014**	**2013**
Balance – beginning of year	278,253	298,682
Exercise of options	424	927
Net issuance of restricted shares	1,246	1,240
Share buybacks (1)	(24,740)	(22,596)
Balance – end of year	255,183	278,253

____
(1) Includes share buybacks associated with authorized share buyback programs as well as purchases related to satisfying tax withholding obligations of employees in connection with the vesting of restricted shares granted under the Company's equity compensation programs.

Ordinary Share Buybacks

On February 22, 2013, XL-Ireland announced that its Board of Directors approved a new share buyback program, authorizing the purchase of up to $850 million of its ordinary shares (the "Share Buyback Program"). This authorization replaced the previous Program.

At December 31, 2013, $275.0 million remained available for purchase under the Share Buyback Program. On February 21, 2014, XL-Ireland announced that its Board of Directors approved an increase to the Share Buyback Program, authorizing

the purchase of up to $1.0 billion of our ordinary shares. This authorization includes the approximately $200.0 million that remained under the Share Buyback Program prior to the increase.

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

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

(b) Non-controlling Interest in Equity of Consolidated Subsidiaries

All of the preferred shares discussed in this section were issued by XL-Cayman and do not represent share capital of XL-Ireland. XL-Ireland has no preferred shares outstanding and has never issued any preferred shares.

Series D Preference Ordinary Shares

On October 15, 2011, XL-Cayman issued $350 million Series D Preference Ordinary Shares. Dividends on the Series D Preference Ordinary Shares are declared and paid quarterly at a floating rate of three-month LIBOR plus 3.120% on the liquidation preference. XL-Cayman used the consideration it received as partial funding for the repayment at maturity of the outstanding $600 million XLCFE Notes that were issued by XLCFE, with the balance available for general corporate purposes.

Series E Preference Ordinary Shares

On March 15, 2007, XL-Cayman issued 1.0 million Fixed/Floating Series E Perpetual Non-Cumulative preference ordinary shares, par value $0.01 each, with liquidation preference value of $1,000 per share (the “Series E preference ordinary shares”). XL-Cayman received net proceeds of approximately $983.8 million from the offering. The Series E preference ordinary shares are perpetual securities with no fixed maturity date and are not convertible. Dividends on the Series E preference ordinary shares are declared and paid semi-annually at a rate of $32.50 per share.

(c) Stock Plans

The Company’s performance incentive programs provide for grants of stock options, restricted stock, restricted stock units, performance units and stock appreciation rights. Share-based compensation granted by the Company generally contains a vesting period of three or four years, and certain awards also contain performance conditions. The Company records compensation expense related to each award over its vesting period, incorporating the best estimate of the expected outcome of performance conditions where applicable. Compensation expense is generally recorded on a straight line basis over the vesting period of an award.

In connection with, and effective upon, the completion of the Redomestication, XL-Ireland assumed the existing liabilities, obligations and duties of XL-Cayman under the NAC Re Corp. 1989 Stock Option Plan (the “1989 Plan”), the XL Group plc Amended and Restated 1991 Performance Incentive Program (the “1991 Program”), the XL Group plc Amended and Restated 1999 Performance Incentive Program for Employees (the “1999 Program”), the XL Group plc Directors Stock & Option Plan (the “Directors Plan”), the XL Group plc 2009 Cash Long-Term Incentive Program (the “2009 Program”), the XL Group plc Supplemental Deferred Compensation Plan (the “DC Plan,” and together with the 1989 Plan, 1991 Program, the 1999 Program, the Directors Plan and the 2009 Program, the “Programs”). Furthermore, in connection with, and effective upon, the completion of the Redomestication, the Programs were amended by XL-Cayman, among other things, to (i) provide that XL-Ireland and its Board of Directors will succeed to all powers, authorities and obligations of XL-Cayman and its Board of Directors under each Program, (ii) provide that the securities to be issued pursuant to each Program will consist of ordinary shares of XL-Ireland and (iii) otherwise to reflect the completion of the Redomestication.

(d) Options

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2014	2013	2012
Dividend yield	2.00%	2.00%	1.90%
Risk free interest rate	1.81%	1.14%	1.15%
Volatility	34.0%	37.0%	46.0%
Expected lives	6.0 years	6.0 years	6.0 years

The risk free interest rate is based on U.S. Treasury rates. The expected lives are estimated using the historical exercise behavior of grant recipients. The expected volatility is determined based upon a combination of the historical volatility of the Company's stock and the implied volatility derived from publicly traded options.

The following is a summary of the activity in the stock option plans for the indicated years ended December 31:

(In thousands except for weighted average grant date fair value)	2014	2013	2012
Options granted to purchase ordinary shares under directors and employees incentive compensation plans - in thousands	1,025	1,047	1,209
Weighted average grant date fair value	$ 8.60	$ 8.34	$ 7.65
Total intrinsic value of stock options exercised	$ 7,499	$ 16,076	$ 3,357
Options exercised during the year - in thousands	424	927	383
Compensation expense related to stock option plans	$ 9,961	$ 8,294	$ 7,716
Estimated tax benefit (charge) related to stock option plans	$ (2)	$ 50	$ 26

The following is a summary of the stock options outstanding at December 31, 2014, and related activity for the year then ended:

	Number of Shares (*in thousands*)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (*in thousands*)
Outstanding – beginning of year	11,123	$ 36.91	4.8 years	$ 74,927
Granted	1,025	30.42		
Exercised	(424)	15.04		
Canceled/Expired	(1,199)	78.46		
Outstanding – end of year	10,525	$ 32.42	4.8 years	$ 86,690
Options exercisable	8,400	$ 33.53	3.9 years	$ 73,153
Available for grant (1)	10,316			

(1) Available for grant includes shares that may be granted as either stock options, restricted stock, restricted stock units or performance units.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the 2014 fiscal year and the exercise price, multiplied by the number of in-the-money-options) that would have been received by the option holders had all option holders exercised their options on December 31, 2014. Total unrecognized stock-based compensation expense related to non-vested stock options was approximately $10.4 million at December 31, 2014, which related to approximately 2.1 million options and is expected to be recognized over a weighted-average period of 1.3 years. The exercise price of the Company's outstanding options granted is the market price of the Company's ordinary shares on the grant date, except that during 2004, 295,000 options were granted with an exercise price of $88.00 when the market price was $77.10.

(e) Restricted Stock, Restricted Stock Units and Performance Units

Restricted Stock

Restricted stock awards issued under the 1991 Performance Incentive Program and the Directors Stock and Option Plan vest as set forth in the applicable award agreements. Each restricted stock award represents the Company's obligation to deliver to the holder one ordinary share. The employees and directors who are granted a restricted stock award shall have all the rights of a shareholder, including the right to vote and receive dividends, but the shares are subject to certain restrictions prior to vesting relating to, among other things, forfeiture in the event of termination of employment and transferability.

A summary of the restricted stock awards issued under the 1991 Performance Incentive Program and the Directors Stock and Option Plan for the indicated years ended December 31 is as follows:

(In thousands except for weighted average grant date fair value)	2014	2013	2012
Restricted ordinary shares granted	46	181	325
Weighted average grant date fair value	$ 31.86	$ 29.44	$ 20.92
Aggregate grant date fair value	$ 1,463	$ 5,325	$ 6,811
Compensation expense related to restricted stock awards	$ 5,239	$ 4,419	$ 5,399
Estimated tax benefit related to restricted stock awards	$ 1,233	$ 1,047	$ 1,113

Total unrecognized stock based compensation expense related to non-vested restricted stock awards was approximately $2.5 million at December 31, 2014, which is related to approximately 0.4 million restricted stock awards and is expected to be recognized over one year.

Non-vested restricted stock awards at December 31, 2014 and for the year then ended were as follows:

(In thousands except for weighted average grant date fair value)	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2013	593	$ 33.92
Granted	46	$ 31.86
Vested	(201)	$ 27.79
Forfeited	(5)	$ 44.01
Unvested at December 31, 2014	433	$ 36.41

Restricted Stock Units

Each restricted stock unit represents the Company’s obligation to deliver to the holder one ordinary share upon satisfaction of the three-year vesting term. Restricted stock units are granted at the closing market price on the day of grant and entitle the holder to receive dividends declared and paid in the form of additional ordinary shares contingent upon vesting.

A summary of the restricted stock units issued to officers of the Company and its subsidiaries for the indicated years ended December 31 is as follows:

(In thousands)	2014	2013	2012
Restricted stock units granted	1,867	1,803	1,312
Aggregate grant date fair value	$ 57,134	$ 51,829	$ 27,194
Compensation expense related to restricted stock units	$ 41,879	$ 32,874	$ 24,451
Estimated tax benefit related to restricted stock units	$ 11,607	$ 8,813	$ 6,501

Total unrecognized stock-based compensation expense related to non-vested restricted stock units was approximately $60.1 million at December 31, 2014, which is related to approximately 3.2 million restricted stock units and is expected to be recognized over 1.4 years.

Non-vested restricted stock units at December 31, 2014 and for the year then ended were as follows:

(In thousands except for weighted average grant date fair value)	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2013	2,931	$ 25.77
Granted	1,867	$ 30.60
Vested	(1,388)	$ 24.80
Forfeited	(162)	$ 28.05
Unvested at December 31, 2014	3,248	$ 28.93

Performance Units

The performance units vest after three years and entitle the holder to shares of the Company’s stock. There are no dividend rights associated with the performance units. Each grant of performance units has a target number of shares, with final payouts ranging from 0% to 200% of the grant amount depending upon a combination of corporate and business segment performance

along with each employee's continued service through the vesting date. Performance targets are based on relative and absolute financial performance metrics. A summary of the performance units issued to certain employees of the Company for the indicated years ended December 31 is as follows:

(In thousands)	2014	2013	2012
Performance units granted	572	656	1,527
Potential maximum share payout	1,144	1,312	3,054
Aggregate grant date fair value	$ 16,345	$ 17,753	$ 29,537
Compensation expense related to performance units	$ 24,089	$ 1,041	$ 9,919
Estimated tax benefit (charge) related to performance units	$ 4,250	$ (176)	$ 1,943

Total unrecognized stock-based compensation expense related to non-vested performance units was approximately $27.8 million at December 31, 2014, which is related to approximately 2.5 million performance units and is expected to be recognized over 1.8 years. Non-vested restricted performance units as of December 31, 2014 were as follows:

(In thousands except for weighted average grant date fair value)	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2013	1,687	$ 22.99
Granted	572	$ 28.57
Vested	(340)	$ 22.06
Forfeited	(100)	$ 25.98
Performance driven addition (reduction)	721	$ 26.46
Unvested at December 31, 2014	2,540	$ 25.24

(f) Voting

XL-Ireland's Articles of Association restrict the voting power of any person to less than approximately 10% of the total voting power.

21. Retirement Plans

The Company provides pension benefits to eligible employees through various defined contribution and defined benefit retirement plans sponsored by the Company, which vary for each subsidiary. Plan assets are invested principally in equity securities and fixed maturities.

(a) Defined contribution plans

The Company has qualified defined contribution plans that are managed externally and to which employees and the Company contribute a certain percentage of the employee's pensionable salary each month. The Company's contribution generally vests over five years. The Company's expenses for its qualified contributory defined contribution retirement plans were $56.6 million, $49.4 million and $53.6 million at December 31, 2014, 2013 and 2012, respectively.

(b) Defined benefit plans

The Company maintains defined benefit plans that cover certain employees as follows:

U.S. Plan

A qualified non-contributory defined benefit pension plan exists to cover a number of U.S. employees. The plan was curtailed in 2002 and was closed to new entrants at that time. Under the terms of the curtailment, existing plan participants were no longer entitled to earn additional defined benefits for future services performed after the curtailment date; however, accrued benefits are eligible for annual cost-of-living increases. This plan also includes a non-qualified supplemental defined benefit plan designed to compensate individuals to the extent that their benefits under the Company's qualified plan are curtailed due to IRS Code limitations. Benefits are based on years of service and compensation, as defined in the plan, during the highest consecutive three years of the employee's last ten years of employment.

In addition, pursuant to agreements entered into by the Company, certain former employees have received benefit type guarantees, not formally a part of any established plan. The liability recorded with respect to these agreements at December 31, 2014 and 2013 was $3.2 million and $3.0 million, respectively, representing the entire unfunded projected benefit obligations.

U.K. Plans

A contributory defined benefit pension scheme exists in the U.K., but has been closed to new entrants since 1996. Benefits are based on length of service and compensation as defined in the trust deed and rules.

In addition, during 2003, six individuals, four of whom are still employed by the Company in the U.K., transferred from a defined benefit plan into a defined contribution plan. These employees have a contractual agreement with the Company that provides a “no worse than final salary pension” guarantee in the event that they are employed by the Company until retirement, under which the Company guarantees to top-up their defined contribution pension to the level of pension that they would have been entitled to receive had they remained in the defined benefit scheme. The pension liability recorded with respect to these individuals was $3.8 million and $4.0 million at December 31, 2014 and 2013, respectively, representing the entire unfunded projected obligation.

Other European Plans

Certain contributory defined benefit pension plans exist in several European countries, most notably Germany, which are closed to new entrants. Benefits are generally based on length of service and compensation defined in the related agreements.

As a part of the purchase of XL GAPS, the Company acquired certain defined benefit pension liabilities. The related balances are not included in the tables below as the liabilities are insured under an annuity type contract.

The funded status by geographical region of all the Company’s retirement plans at December 31, 2014 and 2013 is as follows:

Funded Status *(U.S. dollars in thousands)*	**2014**	**2013**
U.S.	$ (13,124)	$ (6,181)
U.K.	(7,742)	(7,654)
Other European	(22,977)	(20,983)
Funded status – end of year	$ (43,843)	$ (34,818)

The status of all the Company’s retirement plans at December 31, 2014 and 2013 is as follows:

Change in projected benefit obligation *(U.S. dollars in thousands)*	**2014**	**2013**
Projected benefit obligation – beginning of year	$ 81,976	$ 83,083
Service cost (1)	1,279	1,491
Interest cost	3,747	3,599
Actuarial (gain) / loss	13,402	(5,091)
Benefits and expenses paid	(2,761)	(2,307)
Foreign currency (gains) / losses	(3,817)	1,201
Settlements	(702)	—
Projected benefit obligation – end of year	$ 93,124	$ 81,976

(1) Service costs include cost of living adjustments on curtailed plans.

Change in plan assets *(U.S. dollars in thousands)*	**2014**	**2013**
Fair value of plan assets – beginning of year	$ 47,158	$ 39,313
Actual return on plan assets	3,543	6,113
Employer contributions	1,187	2,919
Benefits and expenses paid	(1,932)	(1,462)
Foreign currency gains / (losses)	(675)	275
Fair value of plan assets – end of year	$ 49,281	$ 47,158
Funded status – end of year	$ (43,843)	$ (34,818)
Accrued pension liability	$ 43,843	$ 34,818

The components of the net benefit cost for the years ended December 31, 2014, 2013 and 2012 are as follows:

Components of net benefit cost *(U.S. dollars in thousands)*	2014	2013	2012
Service cost	$ 1,279	$ 1,491	$ 1,291
Interest cost	3,747	3,589	3,557
Expected return on plan assets	(2,859)	(3,096)	(3,028)
Amortization of net actuarial loss	812	1,440	915
Transfer from AOCI	—	—	3,363
Net benefit cost	$ 2,979	$ 3,424	$ 6,098

Assumptions

Several assumptions and statistical variables are used in the models to calculate the expenses and liability related to the plans. The Company, in consultation with its actuaries, determines assumptions about the discount rate, the expected rate of return on plan assets and the rate of compensation increase. The table below includes disclosure of these rates on a weighted-average basis, for the years ended December 31 as indicated:

	2014			2013		
	U.S. Plans	U.K. Plans	Other European Plans	U.S. Plans	U.K. Plans	Other European Plans
Net Benefit Cost – Weighted-average assumptions						
Discount rate	4.95%	4.60%	3.50%	4.00%	4.50%	4.20%
Expected long-term rate of return on plan assets	6.50%	4.60%	N/A	8.00%	5.70%	N/A
Rate of compensation increase	N/A	5.50%	2.50%	N/A	4.90%	2.50%
Benefit Obligation – Weighted-average assumptions						
Discount rate	3.91%	4.60%	2.40%	4.95%	4.50%	3.50%
Rate of compensation increase	N/A	5.50%	2.50%	N/A	4.90%	2.50%

The expected long-term rate of return assumption is determined by adding expected inflation to the expected long-term real rates of various asset classes taking into account expected volatility and correlation between the various asset classes.

Plan Assets

The U.S. Plan assets at December 31, 2014 and 2013 consist of two mutual funds. The first fund employs a core bond portfolio strategy that seeks maximum total return and price appreciation consistent with the preservation of capital and prudent risk taking with the focus on intermediate – term high quality bonds.

The second fund seeks long term growth of capital. The fund invests primarily in equity securities and depository receipts of U.S. and foreign issuers. The principal types of equity securities in which the fund invests are common and preferred stocks.

The fair value of the U.S. Plan assets at December 31, 2014 and 2013 was $38.1 million and $36.4 million, respectively. As the investments of the retirement plan are mutual funds, they fall within Level 1 in the fair value hierarchy. The inputs and methodologies used in determining the fair value of these assets are consistent with those used to measure our assets as set out in Note 4, "Fair Value Measurements.”

The U.K. pension plan assets are held in a separate trustee administered fund to meet long term liabilities to past and present employees. The table below shows the composition of the plan's assets and the fair value of each major category of plan assets at December 31, 2014 and 2013, as well as the potential returns of the different asset classes. The totals of the asset values held in various externally managed portfolios are provided by third party pricing vendors. There is no significant concentration of risk within plan assets. The assets in the scheme and the expected rates of return were as follows:

(U.S. dollars in thousands, except percentages)	Expected Return on Assets for 2014	Weighted Value at December 31, 2014	Expected Return on Assets for 2013	Weighted Value at December 31, 2013
Equities	7.4%	$ 7,787	6.8%	$ 7,048
Gilts	3.6%	1,579	3.0%	1,775
Corporate Bonds	4.6%	1,594	4.5%	1,758
Other (cash)	4.0%	224	3.4%	133
Total market fair value of assets		$ 11,184		$ 10,714

Expected Cash Flows

Under the U.S. defined benefit plans, the Company’s policy is to make annual contributions to the plan that are deductible for federal income tax purposes and that meet the minimum funding standards required by law. The contribution level is determined by utilizing the projected unit credit cost method and different actuarial assumptions than those used for pension expense purposes. The Company’s funding policy provides that contributions to the plan shall be at least equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974 (“ERISA”), as amended by the Pension Protection Act of 2006. During the fiscal year beginning January 1, 2015, the U.S. defined benefit plans expect to make contributions of $0.4 million.

The estimated future benefit payments with respect to the U.S. defined benefit pension plans are as follows:

(U.S. dollars in thousands)	Retirement Plan	Benefits Equalization Plan	Total
2015	$ 876	$ 425	$ 1,301
2016	$ 925	$ 425	$ 1,350
2017	$ 1,001	$ 421	$ 1,422
2018	$ 1,064	$ 424	$ 1,488
2019	$ 1,255	$ 522	$ 1,777
2020-2024	$ 9,462	$ 2,927	$ 12,389

The U.K. scheme is subject to triennial funding valuations, the most recent of which was conducted as of July 1, 2012 and was reported in 2013. The $2.4 million deficit (calculated on a realistic basis) is being funded over a 10-year period.

22. Accumulated Other Comprehensive Income (Loss)

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

(U.S. dollars in thousands)	Unrealized Gains (Losses) on Investments (1)	OTTI Losses Recognized in AOCI	Foreign Currency Translation Adjustments	Underfunded Pension Liability	Cash Flow Hedge	Total
Balance, net of tax, December 31, 2011	$ 710,447	$ (188,651)	$ 77,555	$ (17,521)	$ 1,235	$ 583,065
OCI before reclassifications	985,544	—	(6,791)	(8,126)	—	970,627
Amounts reclassified from AOCI	(81,678)	67,580	350	4,273	439	(9,036)
Tax (benefit) expense	(23,103)	(300)	(1,715)	482	—	(24,636)
Net current period OCI - net of tax	$ 880,763	$ 67,280	$ (8,156)	$ (3,371)	$ 439	$ 936,955
Balance, net of tax, December 31, 2012	$ 1,591,210	$ (121,371)	$ 69,399	$ (20,892)	$ 1,674	$ 1,520,020
OCI before reclassifications (1)	(742,768)	—	(62,934)	9,722	—	(795,980)
Amounts reclassified from AOCI	(119,970)	32,193	206	1,440	439	(85,692)
Tax (benefit) expense	93,960	(12)	7,870	(3,509)	—	98,309
Net current period OCI - net of tax	$ (768,778)	$ 32,181	$ (54,858)	$ 7,653	$ 439	$ (783,363)
Balance, net of tax, December 31, 2013	$ 822,432	$ (89,190)	$ 14,541	$ (13,239)	$ 2,113	$ 736,657
OCI before reclassifications (1)	954,326	—	(26,497)	(10,877)	—	916,952
Amounts reclassified from AOCI	(143,330)	14,082	87	812	255	(128,094)
Tax (benefit) expense	(43,314)	(939)	681	2,515	—	(41,057)
Net current period OCI - net of tax	$ 767,682	$ 13,143	$ (25,729)	$ (7,550)	$ 255	$ 747,801
Balance, net of tax, December 31, 2014	$ 1,590,114	$ (76,047)	$ (11,188)	$ (20,789)	$ 2,368	$ 1,484,458

____

(1) Included in these amounts is the impact of 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.

The reclassifications out of AOCI along with the associated income statement line items affected by component, and the total related tax (expense) benefit for indicated years ended December 31, are as follows:

Details About AOCI Components *(U.S. dollars in thousands)*	**Gross Amount Reclassified From AOCI** 2014	2013	**Affected Line Item in the Statement of Income**
Unrealized gains and losses on investments:			
	$ (175,639)	$ (130,236)	Net realized gains (losses) on investments sold
	54,095	$ 10,266	OTTI on investments
	(21,786)	$ —	Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets
	$ (143,330)	$ (119,970)	Total before tax
	(1,593)	$ 5,183	Provision (benefit) for income tax
	$ (144,923)	$ (114,787)	Net of tax
OTTI losses recognized in OCI:			
	$ 11,848	$ 26,160	Net realized gains (losses) on investments sold
	2,234	$ 6,033	OTTI on investments transferred to (from) OCI
	$ 14,082	$ 32,193	Total before tax
	(175)	$ (12)	Provision (benefit) for income tax
	$ 13,907	$ 32,181	Net of tax
Foreign Currency Translation:			
Foreign exchange relating to affiliate investments	$ 87	$ 206	Exchange gains (losses) - before tax
	—	$ —	Provision (benefit) for income tax
	$ 87	$ 206	Net of tax
Underfunded Pension Liability:			
Pension expense	$ 812	$ 1,440	Operating Expenses
	(206)	$ —	Provision (benefit) for income tax
	$ 606	$ 1,440	Net of tax
Gains and losses on cash flow hedges:			
Interest rate contracts	$ 255	$ 439	Interest Expense
	—	$ —	Provision (benefit) for income tax
	$ 255	$ 439	Net of tax
Total reclassifications for the period, gross of tax	$ (128,094)	(85,692)	
Tax (benefit) expense	(1,974)	5,171	
Total reclassifications for the period, net of tax	$ (130,068)	(80,521)	

23. Dividends

In 2014, four quarterly dividends of $0.16 per share were paid to all ordinary shareholders of record at March 14, June 13, September 15 and December 15. In 2013, four quarterly dividends of $0.14 per share were paid to all ordinary shareholders of record at March 15, June 14, September 13 and December 13. In 2012, four quarterly dividends of $0.11 per share were paid to all ordinary shareholders of record at March 15, June 15, September 14 and December 14.

XL-Cayman paid dividends to Series D and Series E preference shareholders for the indicated years ended December 31, as follows:

(U.S. dollars in millions)	2014	2013	2012
Series D preference ordinary shares (1) (2)	$ 11.7	$ 12.3	$ 14.0
Series E preference ordinary shares (3)	$ 65.1	$ 65.1	$ 65.1

____
(1) On October 31, 2014, the Company announced that the Board of Directors of XL-Cayman resolved to pay a dividend of $8.5563 per share on XL-Cayman's Series D Preference Ordinary Shares. The dividend was paid on January 15, 2015 to all shareholders of record at January 1, 2015.
(2) On February 20, 2015, the Company announced that the Board of Directors of XL-Cayman, resolved on February 19, 2015 to pay a dividend of $8.4315 per share on XL-Cayman's Series D Preference Ordinary Shares. The dividend will be paid on April 15, 2015 to all shareholders of record at April 1, 2015.
(3) On February 20, 2015, the Company announced that the Board of Directors of XL-Cayman, resolved on February 19, 2015 to pay a dividend of $32.50 per share on XL-Cayman's Series E Preference Ordinary Shares. The dividend will be paid on April 15, 2015 to all shareholders of record at April 1, 2015.

24. Taxation

The Company's Irish operations, including the parent company XL Group plc, are subject to income and capital gains tax in Ireland under applicable Irish law.

The Company's Bermuda subsidiaries are 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 Bermuda subsidiaries 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's U.S. subsidiaries are subject to federal, state and local corporate income taxes and other taxes applicable to U.S. corporations. The provision for federal income taxes has been determined under the principles of the consolidated tax provisions of the IRS Code and Regulations thereunder.

The Company has operations in subsidiary and branch form in various other jurisdictions around the world, including but not limited to the U.K., Switzerland, Ireland, Germany, France, Canada, Brazil and various other countries in Latin America and Asia that are subject to relevant taxes in those jurisdictions.

Deferred income taxes have not been accrued with respect to certain undistributed earnings of foreign subsidiaries. If the earnings were to be distributed, as dividends or otherwise, such amounts may be subject to withholding taxation in the jurisdiction of the paying entity. The Company does not assert that all earnings arising in the U.S. will be permanently reinvested in that jurisdiction and, accordingly, a provision for withholding taxes arising in respect of current period U.S. earnings has been made. No withholding taxes are accrued with respect to the earnings of the Company's subsidiaries arising outside the U.S., as it is the intention that all such earnings, which would be subject to withholding tax, will remain reinvested indefinitely.

The Company's current corporate structure is such that distribution of earnings from subsidiaries located outside of the U.S. would not be subject to significant incremental taxation. It is not practicable to estimate the amount of additional withholding taxes that might be payable on such earnings due to a variety of factors, including the timing, extent and nature of any repatriation.

The following table details the years that are the subject of open examinations, by major tax jurisdiction. While the Company cannot estimate with certainty the outcome of these examinations, the Company does not believe that adjustments from open tax years will result in a significant change to the Company's results from operations.

Jurisdiction	Tax Years
U.S.	2013
Ireland	2006 - 2009
U.K.	2007 - 2010
Germany	2006 - 2009
Switzerland	2009 - 2010

The following table details open tax years that are open to assessment by local tax authorities, in the following major tax jurisdictions.

Jurisdiction	Tax Years
U.S.	2011 - 2014
Ireland	2006 - 2014
U.K.	2007 - 2010, 2012 - 2014
Germany	2007 - 2014
Switzerland	2009 - 2014
France	2012 - 2014

The Company's income (loss) before income tax and non-controlling interests was distributed between U.S. and non-U.S. for the years ended December 31, 2014, 2013 and 2012 as follows:

Income (loss) before income tax: *(U.S. dollars in thousands)*	2014	2013	2012
U.S.	$ 228,708	$ 188,503	$ 50,439
Non U.S.	137,027	1,025,649	713,972
Total	$ 365,735	$ 1,214,152	$ 764,411

The income tax provisions for the years ended December 31, 2014, 2013 and 2012 were as follows:

(U.S. dollars in thousands)	2014	2013	2012
Current expense:			
U.S.	$ 45,598	$ 49,566	$ 11,966
Non U.S.	81,371	41,921	45,614
Total current expense	$ 126,969	$ 91,487	$ 57,580
Deferred expense (benefit):			
U.S.	$ 8,572	$ 700	$ (56,602)
Non U.S.	(38,644)	(14,682)	33,050
Total deferred expense (benefit)	$ (30,072)	$ (13,982)	$ (23,552)
Total tax expense	$ 96,897	$ 77,505	$ 34,028

The applicable statutory tax rates of the most significant jurisdictions contributing to the overall taxation of the Company are:

Jurisdiction	**Applicable Statutory Taxation Rates**
Ireland (1)	12.50%
Ireland (1)	25.00%
Bermuda	—%
U.S.	35.00%
U.K.	21.50%
Switzerland (2)	7.83%
Switzerland (2)	21.20%
Germany	15.00%
France	38.00%

____
(1) The different applicable statutory taxation rates in Ireland relate to entities classified as trading or non-trading companies.
(2) The different applicable statutory taxation rates in Switzerland relate to entities classified as trading or holding companies.

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. A reconciliation of the difference between the provision for income taxes and the expected tax provision at the weighted average tax rate for the years ended December 31, 2014, 2013 and 2012 is provided below:

(U.S. dollars in thousands)	**2014**	**2013**	**2012**
Expected tax (benefit) provision at weighted average rate	$ 132,775	$ 43,092	$ 53,358
Permanent differences:			
Non-taxable (income) loss	(19,870)	(50,745)	(42,428)
Prior year adjustments	5,990	6,067	(622)
Prior year adjustments on completion of IRS examinations	—	—	(19,192)
State, local and foreign taxes	47,078	12,225	18,312
Valuation allowance	(181)	5,754	(16,644)
Net allocated investment income	3,399	5,949	41,727
Stock options	411	1,501	4,749
Non-deductible expenses	22,556	23,662	16,145
Net realized capital loss carry-forward valuation allowance reduction	(2,916)	—	(24,473)
Adjustments related to Life Retro Arrangements	(99,535)	—	—
Non-taxable reserve release	—	—	3,096
Uncertain tax positions	7,190	30,000	—
Total tax expense	$ 96,897	$ 77,505	$ 34,028

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

(U.S. dollars in thousands)	2014	2013
Deferred tax asset:		
Net unpaid loss reserve discount	$ 90,262	$ 105,511
Net unearned premiums	72,752	69,811
Compensation liabilities	77,578	62,710
Net operating losses	49,834	89,233
Investment adjustments	13,022	12,573
Pension	8,114	5,695
Bad debt reserve	6,626	7,337
Amortizable goodwill	6,694	7,976
Net unrealized depreciation on investments	1,484	9,984
Stock options	11,985	12,171
Depreciation	7,599	3,501
Net realized capital losses	97,189	140,993
Deferred intercompany capital losses	57,427	69,500
Untaxed Lloyd's result	7,254	2,533
Deferred acquisition costs	11,386	—
Other	2,282	9,638
Deferred tax asset, gross of valuation allowance	$ 521,488	$ 609,166
Valuation allowance	207,062	261,924
Deferred tax asset, net of valuation allowance	$ 314,426	$ 347,242
Deferred tax liability:		
Net unrealized appreciation on investments	$ 63,642	$ 28,843
Unremitted earnings	$ 5,125	$ 6,717
Deferred acquisition costs	2,737	7,057
Currency translation adjustments	3,969	7,195
Regulatory reserves	65,965	131,750
Investment adjustment	12,061	6,112
Untaxed Lloyd's result	11,422	—
Other	11,260	8,014
Deferred tax liability	$ 176,181	$ 195,688
Net Deferred Tax Asset	$ 138,245	$ 151,554

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 $204.5 million and $237.9 million at December 31, 2014 and 2013, respectively, and deferred tax liability balances of $66.2 million and $86.3 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.

At December 31, 2014 and 2013, the valuation allowance of $207.1 million and $261.9 million, respectively, related primarily to net operating loss carry forwards and realized capital loss carry forwards in the following jurisdictions:

Jurisdiction *(U.S. dollars in thousands)*	2014	2013
Switzerland	$ 1,459	$ 11,457
Ireland	72,363	60,133
U.S.	123,695	175,372
Other	9,545	14,962
Valuation Allowance Total	$ 207,062	$ 261,924

The reduction in the valuation allowance in 2014 of $54.9 million was primarily due to the release of certain valuation allowances held against capital loss carry-forwards in the U.S.

At December 31, 2014, the Company had U.S. realized capital loss carry forwards of approximately $174.6 million ($61.1 million tax effected). The five year limitation for the utilization of realized capital losses applies to this balance. Losses of $75.6

million will expire at the end of 2015 with another $99.0 million of realized capital losses expiring in future years through 2018. A valuation allowance ($61.1 million) has been established in respect of all of these realized capital losses. At December 31, 2014, the Company also had $164.1 million of U.S. capital losses arising from the sale of investments to an international affiliate ($57.4 million tax effected), against which a valuation allowance of $57.4 million has been established. These losses cannot be utilized to offset any future U.S. realized capital gains, and will not begin to expire, until the underlying assets have been sold to unrelated parties.

At December 31, 2014, net operating loss carry forwards in the U.K. were approximately $84.5 million ($1.9 million tax effected, including a $15.0 million uncertain tax position offset, $16.9 million tax effected excluding the offset) and have no expiration. At December 31, 2014, the Company also had $8.1 million of U.K. capital losses ($1.6 million tax effected), against which a valuation allowance of $1.6 million has been established.

At December 31, 2014, net operating loss carry forwards in Switzerland were approximately $12.1 million. A valuation allowance of $0.8 million has been established in respect of $11.7 million of the Swiss net operating losses.

At December 31, 2014, net operating loss carry forwards in Ireland were approximately $280.8 million, with a further $153.5 million of capital losses carried forward. Although these Irish losses may be carried forward indefinitely, a valuation allowance ($69.6 million) has been established in respect of all of these Irish losses due to the uncertainty surrounding any future loss utilization.

Management has reviewed historical taxable income and future taxable income projections for its U.K. group and has determined that in its judgment substantially all of the U.K. net operating losses ($84.5 million) will more likely than not be realized as reductions to future taxable income within a reasonable period. Management will continue to evaluate income generated in future periods by the U.K. group in determining the reasonableness of its position. If management determines that future income generated by the U.K. group is insufficient to cause the realization of the net operating losses within a reasonable period, a valuation allowance would be required for the U.K. portion of the deferred tax asset balance related to net operating losses in the amount of $1.9 million.

Management believes it is more likely than not that the tax benefit of the remaining net deferred tax assets will be realized.

Shareholders’ equity at December 31, 2014 and 2013 reflected tax benefits of $4.0 million and $1.8 million, respectively, related to the excess of tax deductions over book compensation expense for stock awards exercised/vested by the Company's U.S. subsidiaries.

At December 31, 2014 and 2013, the Company had unrecognized tax benefits of $37.2 million and $30.0 million, respectively. If recognized, the full amount of these unrecognized tax benefits would decrease the annual effective tax rate. The Company does not currently anticipate any significant change in unrealized tax benefits during 2015.

The following table presents a reconciliation of the Company’s unrecognized tax benefits:

(U.S. dollars in thousands)	**2014**	**2013**
Unrecognized tax benefits, beginning of the year	$ 30,000	$ —
Increases for tax positions taken during the year	12,182	9,591
Increases for tax positions taken in prior years	15,304	20,409
Decreases for tax positions taken during the year	—	—
Decreases for tax positions taken in prior years	(20,296)	—
Decreases for settlement with taxing authorities	—	—
Decreases for lapse of the applicable statute of limitations	—	—
Unrecognized tax benefits, end of year	$ 37,190	$ 30,000

The Company’s policy is to recognize any interest and penalties accrued related to unrecognized tax benefits in the tax charge. At December 31, 2014 and 2013, the Company had accrued interest and penalties of $0.4 million and $1.0 million, respectively.

25. 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 to XL-Ireland and XL-Cayman, the Company's holding companies, by the Company's principal operating subsidiaries is regulated under the laws of various jurisdictions including Bermuda, the U.K., Ireland and Switzerland and certain insurance statutes of various states in the United States 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:

	Bermuda (1)		U.S. (2)		U.K., Europe and Other	
(U.S. dollars in thousands)	2014	2013	2014	2013	2014	2013
Required statutory capital and surplus	$ 6,194,832	$ 6,583,273	$ 668,794	$ 657,865	$ 1,604,721	$ 1,970,909
Actual statutory capital and surplus (3)	$ 10,309,895	$ 10,168,744	$ 2,233,596	$ 2,244,505	$ 2,712,552	$ 2,684,317

____
(1) Required statutory capital and surplus at December 31, 2014 represents 100% Bermuda Solvency Capital Requirement ("BSCR") level for the top Bermuda operating subsidiary, XL Insurance (Bermuda) Ltd, calculated on a consolidated basis (and therefore includes a BSCR requirement for all regions).
(2) Required statutory capital and surplus represents 100% Risk-Based Capital level for principal U.S. operating subsidiaries.
(3) Statutory assets in Bermuda include investments in other U.S. and international subsidiaries reported separately herein.

Statutory net income (loss) for the principal operating subsidiaries of the Company for the years ended December 31, 2014, 2013 and 2012 is summarized below:

(U.S. dollars in thousands)	2014	2013	2012
Bermuda	$ 361,033	$ 1,241,878	$ 857,832
U.S.	$ 155,751	$ 124,310	$ 106,510
U.K., Europe and Other	$ 215,787	$ 1,465	$ 144,829

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, or unrealized appreciation on investments, but they do reflect any unauthorized/authorized reinsurance charges.

Certain restrictions on the payment of dividends from retained earnings by the Company's principal operating 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 with which insurers and reinsurers must comply. The BSCR employs a standard mathematical model that can relate more accurately the risks undertaken 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 for its Bermuda principal operating subsidiaries, XL Re Ltd and XL Insurance (Bermuda) Ltd, 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, Class 4 (re)insurers are 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 Class 4 (re)insurer to fail to meet its relevant margins. At December 31, 2014 and 2013, the maximum dividend that our Bermuda Class 4 (re)insurers could pay, without a signed

affidavit, having met minimum levels of statutory capital and surplus and liquidity requirements, was approximately $1.4 billion and $1.4 billion, 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.

U.S. Operations

Unless permitted by the New York Superintendent of Insurance, the Company's lead property and casualty subsidiary in the United States ("XLRA") cannot declare or distribute any dividend to shareholders during any twelve month period that exceeds the lesser of 10 percent of XLRA's statutory policyholders' surplus or 100 percent of its "adjusted net investment income," as defined. The New York State insurance law also provides that any distribution that is a dividend may only be paid out of statutory earned surplus. At December 31, 2014 and 2013, XLRA had statutory earned surplus of $205.5 million and $180.5 million, respectively. At December 31, 2014, XLRA's statutory policyholders' surplus was $2.2 billion, and the maximum amount of dividends XLRA can declare and pay in 2015, without prior regulatory approval, is $196.2 million. At December 31, 2014 and 2013, none of the seven property and casualty subsidiaries of XLRA had a statutory earned deficit.

International Operations

The Company's international principal operating 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, such subsidiaries 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 the U.S. and Bermuda is held in Ireland ($1.1 billion at December 31, 2014) and the U.K. ($1.2 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.

Other Restrictions

XL-Ireland and XL-Cayman have no operations of their own and their assets consist primarily of investments in subsidiaries. Accordingly, XL-Ireland's and XL-Cayman's future cash flows largely depend on the availability of dividends or other permissible payments from subsidiaries as noted above.

XL-Ireland is subject to certain legal constraints that affect its ability to pay dividends on or redeem or buyback its ordinary shares. While XL-Ireland's Articles of Association authorize its board of directors to declare and pay dividends as justified from the profits, under Irish law, XL-Ireland may only pay dividends or buyback or redeem shares using distributable reserves. In addition, no dividend or distribution may be made unless the net assets of XL-Ireland are not less than the aggregate of its share capital plus undistributable reserves and the distribution does not reduce XL-Ireland's net assets below such aggregate. At December 31, 2014, XL-Ireland had $2.9 billion in distributable reserves.

In addition, XL-Cayman is subject to certain constraints that affect its ability to pay dividends on its preferred shares. Under Cayman Islands law, XL-Cayman may not declare or pay a dividend if there are reasonable grounds for believing that XL-Cayman is, or would after the payment be, unable to pay its liabilities as they become due in the ordinary course of business. Also, the terms of XL-Cayman's preferred shares prohibit declaring or paying dividends on the ordinary shares unless full dividends have been declared and paid on the outstanding preferred shares. Full dividends have been declared and paid on the outstanding preferred shares at December 31, 2014.

At December 31, 2014, XL-Ireland and XL-Cayman held cash and investments, net of liabilities associated with cash sweeping arrangements, of $22.4 million and $0.9 billion, respectively, compared to $12.7 million and $1.6 billion, respectively, at December 31, 2013.

The ability to declare and pay dividends may also be restricted by financial covenants in the Company's letters of credit and revolving credit facilities. The Company was in compliance with all covenants by significant margins at December 31, 2014, and the Company currently remains in compliance.

26. Computation of Earnings Per Ordinary Share and Ordinary Share Equivalent

The following table sets forth the computation of basic and diluted earnings per ordinary share for the years ended December 31, 2014, 2013 and 2012:

(U.S. dollars in thousands, except per share amounts)	2014	2013	2012
Basic earnings per ordinary share and ordinary share equivalents outstanding:			
Net income (loss) attributable to ordinary shareholders	$ 188,340	$ 1,059,916	$ 651,128
Weighted average ordinary shares outstanding	267,103	287,801	307,372
Basic earnings per ordinary share and ordinary share equivalents outstanding	$ 0.71	$ 3.68	$ 2.12
Diluted earnings per ordinary share and ordinary share equivalents outstanding:			
Weighted average ordinary shares outstanding – basic	267,103	287,801	307,372
Impact of share based compensation and certain conversion features	4,424	4,268	2,910
Weighted average ordinary shares outstanding – diluted	271,527	292,069	310,282
Diluted earnings per ordinary share & ordinary share equivalents outstanding	$ 0.69	$ 3.63	$ 2.10
Dividends per ordinary share	$ 0.64	$ 0.56	$ 0.44

For the years ended December 31, 2014, 2013 and 2012, ordinary shares available for issuance under share-based compensation plans of 5.5 million, 6.0 million and 8.7 million, respectively, were not included in the calculation of diluted earnings per share because the assumed exercise or issuance of such shares would be anti-dilutive.

27. Related Party Transactions

At December 31, 2014 and 2013, the Company owned minority stakes in six and five, respectively, independent investment management companies ("Investment Manager Affiliates") that are actively managing client capital and seeking growth opportunities. The Company seeks to develop relationships with specialty investment management organizations, generally acquiring an equity interest in the business. The Company also invests in certain of the funds and limited partnerships and other legal entities managed by these affiliates and through these funds and partnerships pays management and performance fees to the Company's Investment Manager Affiliates. See Note 7, "Investment in Affiliates," included herein, for further information.

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, 2013 and 2012, 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.

(U.S. dollars in thousands)	2014	2013	2012
Reported net premiums written	$ 91,261	$ 73,085	$ 61,146
Net losses incurred	$ 38,927	$ 29,042	$ 37,664
Reported acquisition costs	$ 35,711	$ 25,275	$ 24,014

Several of the Company's wholly-owned subsidiaries retrocede assumed reinsurance business to special purpose reinsurers that receive capital funds managed by New Ocean, which is discussed in Note 18, "Variable Interest Entities." Underwriting administration services are provided to the special purpose reinsurers by other subsidiaries of the Company under service fee agreements negotiated at arm's length, while investment advisory services are provided by New Ocean.

28. Unaudited Quarterly Financial Data

The following is a summary of the unaudited quarterly financial data for 2014 and 2013:

(U.S. dollars in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2014				
Net premiums earned – P&C operations	$ 1,412,528	$ 1,438,076	$ 1,453,673	$ 1,413,161
Net premiums earned – Corporate and Other	$ 76,311	$ 58,518	$ 19,739	$ 23,064
Underwriting profit (loss) – P&C operations	$ 144,874	$ 167,946	$ 144,375	$ 218,851
Net income (loss) attributable to ordinary shareholders	$ 255,717	$ (279,261)	$ 72,384	$ 139,500
Net income (loss) per ordinary share and ordinary equivalent – basic	$ 0.93	$ (1.03)	$ 0.27	$ 0.54
Net income (loss) per ordinary share and ordinary equivalent – diluted	$ 0.91	$ (1.03)	$ 0.27	$ 0.53
2013				
Net premiums earned – P&C operations	$ 1,464,246	$ 1,488,497	$ 1,550,629	$ 1,510,727
Net premiums earned – Corporate and Other	$ 65,445	$ 73,896	$ 74,683	$ 81,398
Underwriting profit (loss) – P&C operations	$ 180,588	$ 92,124	$ 76,900	$ 101,450
Net income (loss) attributable to ordinary shareholders	$ 350,790	$ 272,698	$ 135,648	$ 300,780
Net income (loss) per ordinary share and ordinary equivalent – basic	$ 1.19	$ 0.94	$ 0.48	$ 1.07
Net income (loss) per ordinary share and ordinary equivalent – diluted	$ 1.17	$ 0.93	$ 0.47	$ 1.05

29. Subsequent Events

Catlin Acquisition

On January 9, 2015, the Company entered into an implementation agreement (the "Implementation Agreement") with Catlin Group Limited ("Catlin") and Green Holdings Limited, a direct, wholly-owned subsidiary of the Company ("Green Holdings"), pursuant to which the Company will acquire the entire issued and to be issued share capital of Catlin (the "Acquisition") for cash and newly-issued ordinary shares of the Company. 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 Company, 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 Company 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 Company will be listed on the New York Stock Exchange following the completion of the Acquisition. For further information on the Acquisition, see the Company's Report on Form 8-K filed with the U.S. 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 Company, 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 Company 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 Company, 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 U.S. federal income tax purposes.

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

Sale of Strategic Operating Affiliate

On December 15, 2014, XL Re Ltd ("XL Re"), an indirect wholly-owned subsidiary of the Company, and other shareholders of ARX entered into a Stock Purchase Agreement with Progressive to sell all of its shares in ARX to Progressive. XL Re's shares in ARX represented approximately 40% of ARX's outstanding capital stock on a fully diluted basis at the time of the announcement. At December 31, 2014, the Company recorded XL Re's shares in ARX as $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. XL Re anticipates proceeds of approximately $500 million related to the sale, which will be based upon the consolidated tangible net book value of ARX and its subsidiaries at December 31, 2014, and certain other factors.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in accountants within the twenty-four months ending December 31, 2014.

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures, as of the end of the period covered by this report, were effective and provided reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended.

The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting at December 31, 2014. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in the 2013 Internal Control-Integrated Framework (the "Framework"). Based on its assessment, management concluded that, at December 31, 2014, the Company's internal control over financial reporting is effective based on the Framework criteria.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The effectiveness of the Company's internal control over financial reporting at December 31, 2014 has been audited by PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, as stated in their report which appears in Item 15, "Exhibits and Financial Statement Schedules."

Changes in Internal Control Over Financial Reporting

There have been no changes in internal control over financial reporting identified in connection with the Company's evaluation required pursuant to Rules 13a-15 and 15d-15 promulgated under the Securities Exchange Act of 1934, as amended, that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Certain of the information required by this item relating to the executive officers and directors of the Company may be found at the end of Part I under the heading “Executive Officers of the Registrant” and “Non-Employee Directors of the Registrant.” The balance of the information required by this item is incorporated by reference from a definitive proxy statement that involves the election of directors and will be filed with the SEC pursuant to Regulation 14A not later than 120 days after the close of the fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference from a definitive proxy statement that involves the election of directors and will be filed with the SEC pursuant to Regulation 14A not later than 120 days after the close of the fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference from a definitive proxy statement that involves the election of directors and will be filed with the SEC pursuant to Regulation 14A not later than 120 days after the close of the fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference from a definitive proxy statement that involves the election of directors and will be filed with the SEC pursuant to Regulation 14A not later than 120 days after the close of the fiscal year.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference from a definitive proxy statement that involves the election of directors and will be filed with the SEC pursuant to Regulation 14A not later than 120 days after the close of the fiscal year.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Financial Statements, Financial Statement Schedules and Exhibits.

	Page
Report of Independent Registered Public Accounting Firm	214

1. Financial Statements

Included in Part II, Item 8 of this report.

2. Financial Statement Schedules

Included in Part IV of this report:

	Schedule Number	Page
Consolidated Summary of Investments – Other than Investments in Related Parties at December 31, 2014 and 2013	I	215
Condensed Financial Information of Registrant at December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012	II	216
Reinsurance for the years ended December 31, 2014, 2013 and 2012	IV	220
Supplementary Information Concerning Property/Casualty (Re)Insurance Operations for the years ended December 31, 2014, 2013 and 2012	VI	221
Other Schedules have been omitted as they are not applicable to the Company.		

3. Exhibits

In reviewing the agreements included as exhibits to this Annual Report on Form 10-K, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

Exhibit	Description
2.1	Implementation Agreement, dated January 9, 2015, among XL Group plc, Green Holdings Limited and Catlin Group Limited, incorporated by reference to Exhibit 2.1 to the Company's Form 8-K (No. 1-10804) filed on January 9, 2015.
2.2	Merger Agreement, dated as of January 9, 2015, among XL Group plc, Green Holdings Limited and Catlin Group Limited, incorporated by reference to Exhibit 2.2 to the Company's Form 8-K (No. 1-10804) filed on January 9, 2015.

3.1	Amended and Restated Memorandum and Articles of Incorporation of XL Group plc, incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q (No. 1-10804) for the period ended June 30, 2014
3.2	Certification of Incorporation of XL Group plc, incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K12B (No. 1-10804) filed on July 1, 2010.
3.3	Memorandum of Association of XLIT Ltd., incorporated by reference to Exhibit 4.19 of the Company's Registration Statement on Form S-3 (No. 333-177869) filed on November 9, 2011.
3.4	Articles of Association of XLIT Ltd., incorporated by reference to Exhibit 4.20 of the Company's Registration Statement on Form S-3 (No. 333-177869) filed on November 9, 2011.
4.1	Excerpts from the Minutes of a Meeting of a Committee of the Board of Directors pursuant to Article 75 of XL Capital Ltd's Articles of Association held on March 12, 2007, incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K (No. 1-10804) filed on March 15, 2007.
4.2	Indenture, dated as of June 2, 2004, between XL Capital Ltd and The Bank of New York, as trustee, incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3 (No. 333-116245) filed on June 7, 2004.
4.3	First Supplemental Indenture, dated as of August 23, 2004, to the Indenture, dated as of June 2, 2004, between XL Capital Ltd and The Bank of New York, as trustee, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (No. 1-10804) filed on August 23, 2004.
4.4	Second Supplemental Indenture, dated as of November 12, 2004, to the Indenture, dated as of June 2, 2004, between XL Capital Ltd and The Bank of New York, as trustee, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (No. 1-10804) filed on November 15, 2004.
4.5	Third Supplemental Indenture, date as of December 9, 2005, to the Indenture, dated as of June 2, 2004, between XL Capital Ltd and The Bank of New York, as trustee incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K (No. 1-10804) filed on December 12, 2005.
4.6	Fourth Supplemental Indenture, dated May 7, 2007, to the Indenture, dated as of June 2, 2004, between XL Capital Ltd, and The Bank of New York, as trustee, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (No. 1-10804) filed on May 7, 2007.
4.7	Form of XL Group plc Ordinary Share Certificate, incorporated by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K12B (No. 1-10804) filed on July 1, 2010.
4.8	Excerpts from the Authorizing Resolutions of the Board of Directors of XL Capital Ltd., dated October 27, 2006, incorporated by reference to Exhibit 4.12 to the Company's Annual Report on Form 10-K (No. 1-10804) for the year ended December 31, 2011.
4.9	Excerpts from the Authorizing Resolutions of the Special Finance Committee of XL Capital Ltd, dated July 3, 2003, incorporated by reference to Exhibit 99.11 to the Company's Quarterly Report on Form 10-Q (No. 1-10804) filed on August 14, 2003.
4.10	Form of XL Capital Ltd Global Series E Preference Share Certificate, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (No. 1-10804) filed on March 15, 2007.
4.11	Form of XLIT Ltd. Global Series D Preference Ordinary Share Certificate, incorporated by reference to Exhibit 4.29 to the Company's Annual Report on Form 10-K (No. 1-10804)for the year ended December 31, 2011.
4.12	Indenture, dated September 30, 2011, among XL Group plc, XL Group Ltd. (n/k/a XLIT Ltd.) and Wells Fargo Bank, National Association, as trustee, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on September 30, 2011 (No. 1-10804).
4.13	First Supplemental Indenture, dated September 30, 2011, to the Indenture dated September 30, 2011 among XL Group plc, XL Group Ltd. (n/k/a XLIT Ltd.) and Wells Fargo Bank, National Association, as trustee, incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on September 30, 2011 (No. 1-10804).
4.14	Second Supplemental Indenture, dated November 21, 2013, to the Indenture dated September 30, 2011 among XL Group plc, XL Group Ltd. (n/k/a XLIT Ltd.) and Wells Fargo Bank, National Association, as trustee, incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (No. 1-10804) filed on November 21, 2013.
10.1+	1991 Performance Incentive Program (as amended and restated effective May 6, 2011), incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A (No. 1-10804) filed on March 7, 2011.
10.2+	Amendment to the 1991 Performance Incentive Program (as amended and restated effective May 6, 2011), incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K (No. 1-10804) for the year ended December 31, 2013.

10.3+	Amended and Restated Directors Stock & Option Plan, incorporated by reference to Annex C to the Company's Definitive Proxy Statement on Schedule 14A (No. 1-10804) filed on March 10, 2014
10.4+	Employment Agreement, dated as of September 29, 2006, between XL Capital Ltd and Sarah E. Street, incorporated by reference to Exhibit 10.1 to the Company's quarterly report on Form 10-Q (No. 1-10804) for the period ended September 30, 2006.
10.5+	Form of Non-Statutory Stock Option Agreement (Incremental Vesting), incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q (No. 1-10804) for the period ended June 30, 2010.
10.6+	Form of Non-Statutory Stock Option Agreement (Incremental Vesting), incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004 (No. 1-10804).
10.7+	Form of Non-Statutory Stock Option Agreement, incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q (No. 1-10804) for the period ended March 31, 2013.
10.8+*	Form of Non-Statutory Stock Option Agreement.
10.9+	Form of Restricted Stock Agreement, incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004 (No. 1-10804).
10.10+	Form of Restricted Stock Agreement, incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q (No. 1-10804) for the period ended March 31, 2013.
10.11+	Form of Non-Statutory Stock Option Agreement (Non-Employee Director Renewal Form), incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004 (No. 1-10804).
10.12+	Form of Performance Restricted Stock Agreement, incorporated by reference to Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q (No. 1-10804) for the period ended June 30, 2004.
10.13+	Form of Performance Restricted Stock Unit Agreement, incorporated by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q (No. 1-10804) for the period ended June 30, 2004.
10.14+	Form of Performance Unit Agreement, incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q (No. 1-10804) for the period ended June 30, 2010.
10.15+	Form of Performance Unit Agreement (U.S. Citizens Subject to IRC 457A), incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q (No. 1-10804) for the period ended March 31, 2013.
10.16+	Form of Performance Unit Agreement, incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q (No. 1-10804) for the period ended March 31, 2013.
10.17+	Form of Restricted Stock Unit Agreement, incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q (No. 1-10804) for the period ended June 30, 2010.
10.18+	Form of Restricted Stock Unit Agreement (for U.S. taxpayers based in Bermuda), incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q (No. 1-10804) for the period ended June 30, 2010.
10.19+	Form of Restricted Stock Unit Agreement (U.S. Citizens Subject to IRC 457A), incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (No. 1-10804) for the period ended March 31, 2013.
10.20+	Form of Restricted Stock Unit Agreement, incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (No. 1-10804) for the period ended March 31, 2013.
10.21+	Form of Restricted Stock Unit Agreement (Bespoke Vesting), incorporated by reference to Exhibit 10.1 to the Company's Quarterly report on Form 10-Q (No. 1-10804) for the period ended March 31, 2014.
10.22+*	Form of Restricted Stock Unit Agreement.
10.23+	Form of Director Stock Option Agreement, incorporated by reference to Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004 (No. 1-10804).
10.24	Insurance Letters of Credit - Master Agreement between XL Mid Ocean Reinsurance Ltd and Citibank, N.A., dated May 19, 1993, incorporated by reference to Exhibit 10.33 to Amendment No. 2 to the Registration Statement on Form S-1 of Mid Ocean Limited (No. 333-63298) filed on June 25, 1993.
10.25*	Amended and Restated Pledge Agreement dated as of December 19, 2014, as made by XL Investments Ltd., XL Re Ltd and XL Insurance (Bermuda) Ltd, as Grantors, in favor of Citibank, N.A., as Bank, which amends and restates the Pledge Agreement dated December 18, 2011.
10.26	Replacement Capital Covenant, dated March 15, 2007, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 1-10804) filed on March 15, 2007.

10.27	Master Commutation, Release and Restructuring Agreement by and among XL Capital Ltd, XL Insurance (Bermuda) Ltd, XL Reinsurance America Inc., X.L. Global Services, Inc., XL Services (Bermuda) Ltd and X.L. America, Inc., Security Capital Assurance Ltd ("SCA"), certain of SCA's subsidiaries and certain financial institutions who have entered into various credit default swaps with affiliates of SCA, dated as of July 28, 2008, as amended, incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q (No. 1-10804) for the period ended June 30, 2009
10.28+	Employment Agreement, dated as of March 14, 2008 by and between XL Capital Ltd and Michael S. McGavick, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 1-10804) filed on March 20, 2008.
10.29+	Amendment to Employment Agreement, dated as of December 2008, between XL Capital Ltd and Michael S. McGavick (amended in response to Internal Revenue Code Section 457A), incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q (No. 1-10804) for the period ended June 30, 2009.
10.30+	Second Amendment to Employment Agreement, dated April 26, 2013, between XL Group plc and Michael S. McGavick, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 1-10804) filed on April 29, 2013.
10.31+	2008 Form of Employment Agreement between XL Capital Ltd and certain Executive Officers, incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q (No. 1-10804) for the period ended June 30, 2009.
10.32+	2008 Form of Amendment to Employment Agreement between XL Capital Ltd and certain Executive Officers (amended in response to Internal Revenue Code Section 457A), incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q (No. 1-10804) for the period ended June 30, 2009.
10.33+	Amended Employment Agreement, dated as of April 25, 2008, by and between XL Capital Ltd, X.L. Global Services, Inc. and James H. Veghte (amended in response to Internal Revenue Code Section 409A), incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q (No. 1-10804) for the period ended June 30, 2009.
10.34+	Amendment to Employment Agreement, dated as of December 16, 2009, by and between XL Capital Ltd and Sarah E. Street, incorporated by reference to Exhibit 10.52 to the Company's Annual Report on Form 10-K (No. 1-10804) for the year ended December 31, 2009.
10.35+	Form of Letter Agreement, dated December 15, 2009, relating to Employment Agreements between XL Capital Ltd and certain Executive Officers, incorporated by reference to Exhibit 10.53 to the Company's Annual Report on Form 10-K (No. 1-10804) for the year ended December 31, 2009.
10.36+	Insurance Letters of Credit - Master Agreement, dated November 11, 2009, between XL Insurance (Bermuda) Ltd and Citibank Europe plc, incorporated by reference to Exhibit 10.54 to the Company's Annual Report on Form 10-K (No. 1-10804) for the year ended December 31, 2009.
10.37*	Facility and Fee Letter dated December 30, 2014 from Citibank Europe plc to XL Insurance (Bermuda) Ltd relating to the Insurance Letters of Credit - Master Agreement, dated November 11, 2009, between XL Insurance (Bermuda) Ltd and Citibank Europe plc.
10.38*	Credit Facility Agreement dated December 30, 2014 between XL Insurance (Bermuda) Ltd and ING Bank N.V., London Branch.
10.39*	Pledge and Security Agreement between XL Insurance (Bermuda) Ltd and ING Bank N.V. London Branch dated December 30, 2014
10.40*	Amended and Restated Pledge Agreement dated as of December 19, 2014, as made by XL Insurance (Bermuda) Ltd and XL Re Ltd, as Pledgors, and Citibank plc, as Pledgee, which amends and restates the Pledge Agreement dated November 11, 2009.
10.41+	Form of Indemnification Agreement, dated July 1, 2010, by and between XL Capital Ltd and certain directors and executive officers of the Company, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K12B (No. 1-10804) filed on July 1, 2010.
10.42+	Deed Poll Indemnity, dated July 1, 2010, by XL Capital Ltd, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K12B (No. 1-10804) filed on July 1, 2010.
10.43+	Supplemental Deferred Compensation Plan, amended and restated effective as of January 1, 2007, incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q (No. 1-10804) for the period ended June 30, 2010.
10.44+	Aircraft Time Sharing Agreement, dated February 22, 2011, between Michael S. McGavick and X.L. America, Inc, incorporated by reference to Exhibit 10.63 to the Company's Annual Report on Form 10-K (No. 1-10804) for the year ended December 31, 2010.
10.45+	XL Services UK Limited Profit Sharing Scheme, incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 (No. 333-174138) filed on May 11, 2011 .

10.46+	Employment Agreement, dated as of June 18, 2011, by and between XL Group plc, X.L. Global Services, Inc. and Peter R. Porrino, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 1-10804) filed on June 21, 2011.
10.47+	Form of Letter Agreement between XL Global Services, Inc. and/or XL Group plc and certain executive officers, incorporated by reference to Exhibit 10.67 to the Company's Annual Report on Form 10-K (No. 1-10804) for the year ended December 31, 2011.
10.48+*	Agreement and Release dated October 30, 2014 between XL Group plc, X.L. Global Services, Inc. and James H. Veghte.
10.49+*	XL Group plc Executive Severance Benefit Plan effective December 11, 2014.
10.50+*	Form of Participant Agreement - XL Group Senior Executive Severance Benefit Program entered into with certain executive officers.
10.51	Subscription Agreement, dated as of December 5, 2006, among XL Capital Ltd, Stoneheath Re and Goldman Sachs International, incorporated by reference to Exhibit 10.1 to the Company's Current report on Form 8-K (No. 1-10804) filed on December 11, 2006.
10.52	Excess of Loss Reinsurance Agreement, dated as of December 12, 2006, by and among XL Insurance (Bermuda) Ltd, XL Insurance Switzerland, XL Europe Limited, XL Insurance Company Limited, XL Re Latin America Ltd, XL Insurance Argentina S.A. Compania de Seguros, XL Insurance Company Ltd, XL Re Ltd, XL Re Europe Limited, Vitodurum Reinsurance Company, Underwriting Members of Lloyd's Syndicate #1209 and Stoneheath Re, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 1-10804) filed on December 12, 2006.
10.53	Securities Issuance Agreement, dated as of December 12, 2006 between XL Capital Ltd and Stoneheath Re, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (No. 1-10804) filed on December 12, 2006.
10.54	Trust Agreement, dated as of December 12, 2006 among the Asset Swap Counterparty, The Ceding Insurers and XL Capital Ltd as Beneficiaries and Stoneheath Re, as Guarantor and Beneficiary and The Bank of New York, as trustee, incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (No. 1-10804) filed on December 12, 2006.
10.55+	XL Group plc Reinsurance Supplemental Long Term Cash Incentive Compensation Plan, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (No. 1-10804) filed on April 30, 2012.
10.56+	X.L. America, Inc. Deferred Compensation Plan, incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (No. 1-10804) for the period ended June 30, 2012.
10.57+	Form of Letter Agreement between XL Global Services, Inc. and/or XL Group plc and certain executive officers, incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q (No. 1-10804) for the period ended June 30, 2012.
10.58	Credit Agreement, dated as of May 7, 2013, between XLIT Ltd., Citicorp USA, Inc., as Administrative Agent and Issuing Lender, and the Lenders party thereto, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 1-10804) filed on May 7, 2013.
10.59	Credit Agreement First Amendment, dated as of May 13, 2013, to the Credit Agreement, dated as of May 7, 2013, between XLIT Ltd., Citicorp USA, Inc., as Administrative Agent and Issuing Lender, and the Lenders party thereto, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 1-10804) filed on May 13, 2013.
10.60	Credit Agreement Second Amendment, dated as of May 15, 2013, to the Credit Agreement, dated as of May 7, 2013, between XLIT Ltd., Citicorp USA, Inc., as Administrative Agent and Issuing Lender, and the Lenders party thereto, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 1-10804) filed on May 15, 2013.
10.61	Continuing Agreement for Standby Letters of Credit, dated as of May 7, 2013, between XLIT Ltd. and Citibank, N.A., incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (No. 1-10804) filed on May 7, 2013.
10.62	Letter Agreement, dated as of May 7, 2013, between XLIT Ltd. and Citicorp USA, Inc., incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (No. 1-10804) filed on May 7, 2013.
10.63	Fee Letter Amendment No. 1, dated as of May 13, 2013, to the Letter Agreement, dated as of May 7, 2013, between XLIT Ltd. and Citicorp USA, Inc., incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (No. 1-10804) filed on May 13, 2013.
10.64	Fee Letter Amendment No. 2, dated as of May 15, 2013, to the Letter Agreement, dated as of May 7, 2013, between XLIT Ltd. and Citicorp USA, Inc., incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (No. 1-10804) filed on May 15, 2013.
10.65	Credit Agreement, dated as of August 6, 2013, between XLIT Ltd., Citicorp USA, Inc., as Administrative Agent and Issuing Lender, and the Lenders party thereto, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 1-10804) filed on August 6, 2013.

10.66	Credit Agreement First Amendment, dated as of September 12, 2013, to the Credit Agreement, dated as of August 6, 2013, between XLIT Ltd., Citicorp USA, Inc., as Administrative Agent and Issuing Lender, and the Lenders party thereto, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 1-10804) filed on September 12, 2013.
10.67	Continuing Agreement for Standby Letters of Credit, dated as of August 6, 2013, between XLIT Ltd. and Citibank, N.A., incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (No. 1-10804) filed on August 6, 2013.
10.768	Letter Agreement, dated as of August 6, 2013, between XLIT Ltd. and Citicorp USA, Inc., incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (No. 1-10804) filed on August 6, 2013.
10.69	Fee Letter Amendment No. 1, dated as of September 12, 2013, to the Letter Agreement, dated as of August 6, 2013, between XLIT Ltd. and Citicorp USA, Inc., incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (No. 1-10804) filed on September 12, 2013.
10.70	Credit Agreement, dated as of November 4, 2013, between XLIT Ltd., Citicorp USA, Inc., as Administrative Agent and Issuing Lender, and the Lenders party thereto, incorporated by reference to Exhibit 10.1 the Company's Current Report on Form 8-K (No. 1-10804) filed on November 4, 2013.
10.71	Continuing Agreement for Standby Letters of Credit, dated as of November 4, 2013, between XLIT Ltd. and Citibank, N.A., incorporated by reference to Exhibit 10.2 the Company's Current Report on Form 8-K (No. 1-10804) filed on November 4, 2013.
10.72	Letter Agreement, dated as of November 4, 2013, between XLIT Ltd. and Citicorp USA, Inc., incorporated by reference to Exhibit 10.3 the Company's Current Report on Form 8-K (No. 1-10804) filed on November 4, 2013.
10.73	Secured Credit Agreement, dated as of November 22, 2013, between XL Group plc, XLIT Ltd., X.L. America, Inc., XL Insurance (Bermuda) Ltd, XL Re Ltd, XL Re Europe plc, XL Insurance Company plc, XL Insurance Switzerland Ltd and XL Life Ltd, as Account Parties, XL Group plc, XLIT Ltd., X.L. America, Inc., XL Insurance (Bermuda) Ltd, XL Re Ltd and XL Life Ltd, as Guarantors, the Lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent and The Bank of New York Mellon, as Collateral Agent, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (No. 1-10804) filed on November 25, 2013.
10.74*	First Amendment, dated February 11, 2015, to the Secured Credit Agreement, dated as of November 22, 2013, between XL Group plc, XLIT Ltd., X.L. America, Inc., XL Insurance (Bermuda) Ltd, XL Re Ltd, XL Re Europe plc, XL Insurance Company plc, XL Insurance Switzerland Ltd and XL Life Ltd, as Account Parties, XL Group plc, XLIT Ltd., X.L. America, Inc., XL Insurance (Bermuda) Ltd, XL Re Ltd and XL Life Ltd, as Guarantors, the Lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent and The Bank of New York Mellon, as Collateral Agent.
10.75	Unsecured Credit Agreement, dated as of November 22, 2013, between XL Group plc, XLIT Ltd., X.L. America, Inc., XL Insurance (Bermuda) Ltd, XL Re Ltd, XL Re Europe plc, XL Insurance Company plc, XL Insurance Switzerland Ltd and XL Life Ltd, as Account Parties, XL Group plc, XLIT Ltd., X.L. America, Inc., XL Insurance (Bermuda) Ltd, XL Re Ltd and XL Life Ltd, as Guarantors, the Lenders party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (No. 1-10804) filed on November 25, 2013.
10.76*	First Amendment, dated February 11, 2015, to the Unsecured Credit Agreement, dated as of November 22, 2013, between XL Group plc, XLIT Ltd., X.L. America, Inc., XL Insurance (Bermuda) Ltd, XL Re Ltd, XL Re Europe plc, XL Insurance Company plc, XL Insurance Switzerland Ltd and XL Life Ltd as Account Parties, XL Group plc, XLIT Ltd., X.L. America, Inc., XL Insurance (Bermuda) Ltd, XL Re Ltd and XL Life Ltd, as Guarantors, the Lenders party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent.
10.77	Pledge Agreement, dated as of November 22, 2013, between XL Group plc, XLIT Ltd., X.L. America, Inc., Insurance (Bermuda) Ltd, XL Re Ltd, XL Re Europe plc, XL Insurance Company plc, XL Insurance Switzerland Ltd and XL Life Ltd, as Pledgors, JPMorgan Chase Bank, N.A., as Administrative Agent, and The Bank of New York Mellon, as Collateral Agent, incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (No. 1-10804) filed on November 25, 2013.
10.78+	Form of Director Initial Stock Option Agreement, incorporated by reference to Exhibit 10.89 to the Company's Annual Report on Form 10-K (No. 1-10804) for the year ended December 31, 2013.
10.79	Form of Director Irrevocable Undertaking, incorporated by reference to Exhibit 2.3 to the Company's Form 8-K filed on January 9, 2015.

10.80	364-Day Bridge Loan Agreement, dated as of January 9, 2015, among XLIT Ltd., as borrower, XL Group plc, X.L. America, Inc., XL Insurance (Bermuda) Ltd, XL Re Ltd, and XL Life Ltd, as guarantors, Morgan Stanley Senior Funding, Inc., as administrative agent, and the lenders party thereto, incorporated by reference to Exhibit 2.4 to the Company's Form 8-K (No. 1-10804) filed on January 9, 2015.
10.81*	Stock Purchase Agreement, dated December 15, 2015 by and among ARX Holdings Corp., The Progressive Corporation, Fasteau Insurance Holding, LLC, Marc Fasteau, in his individual capacity and as trustee of The Marc Fasteau 2012 Irrevocable Trust and The Alexis Fasteau 2008 Irrevocable Trust, Flexpoint Fund, L.P., New Capital Partners Private Equity Fund, L.P., Gregory E. Stewart and Stewart Insurance Holdings, LLP.
10.82	Sale and Purchase Agreement, dated May 1, 2014, between GreyCastle Holdings Ltd. and XL Insurance (Bermuda) Ltd, incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q (No. 1-10804) for the period ended June 30, 2014.
10.83	Retrocession Agreement, dated May 30, 2014, between XL Re Ltd and XL Life Reinsurance (SAC) Ltd. (for itself and acting in respect of its segregated account XL-1), incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q (No. 1-10804) for the period ended June 30, 2014.
10.84	Retrocession Agreement, dated May 30, 2014, between XL Re Europe SE and XL Life Reinsurance (SAC) Ltd. (for itself and acting in respect of its segregated account XL-1), incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q (No. 1-10804) for the period ended June 30, 2014.
10.85	Retrocession Agreement, dated May 30, 2014, between XL Re Ltd (UK Branch) and XL Life Reinsurance (SAC) Ltd. (for itself and acting in respect of its segregated account XL-1), incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q (No. 1-10804) for the period ended June 30, 2014.
12*	Statements regarding computation of ratios.
21*	List of subsidiaries of the Registrant.
23*	Consent of PricewaterhouseCoopers LLP.
24*	Powers of Attorney (included in signature page of this Annual Report on Form 10-K).
31*	Rule 13a-14(a)/15d-14(a) Certifications.
32*	Section 1350 Certifications.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

* Filed herewith.

+ Management contract or compensatory plan or arrangement.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of XL Group plc:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of XL Group plc and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in the 2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, New York

February 25, 2015

XL GROUP PLC
SCHEDULE I
CONSOLIDATED SUMMARY OF INVESTMENTS – OTHER THAN INVESTMENTS IN RELATED PARTIES
AT DECEMBER 31, 2014 AND 2013

	2014			2013		
(U.S. dollars in thousands)	Cost or Amortized Cost (1)	Fair Value	Amount Presented in the Balance Sheet	Cost or Amortized Cost (1)	Fair Value	Amount Presented in the Balance Sheet
Fixed Maturities – AFS - Excluding Life Funds Withheld Assets:						
U.S. Government and Government Agency-Related/Supported	$ 2,100,851	$ 2,171,953	$ 2,171,953	$ 2,484,193	$ 2,501,851	$ 2,501,851
Corporate	8,462,130	8,778,373	8,778,373	10,802,332	11,125,830	11,125,830
RMBS – Agency	3,625,171	3,728,576	3,728,576	3,540,101	3,546,122	3,546,122
RMBS – Non-Agency	404,398	427,351	427,351	396,798	398,768	398,768
CMBS	1,033,819	1,052,544	1,052,544	1,223,313	1,246,795	1,246,795
CDO	717,544	692,034	692,034	754,414	717,313	717,313
Other asset-backed securities	1,028,528	1,065,293	1,065,293	1,210,384	1,242,104	1,242,104
U.S. States and political subdivisions of the States	1,892,566	2,021,272	2,021,272	1,821,499	1,845,812	1,845,812
Non-U.S. Sovereign Government, Supranational and Government-Related	4,162,425	4,240,073	4,240,073	4,878,840	4,875,541	4,875,541
Total Fixed maturities – AFS	$ 23,427,432	$ 24,177,469	$ 24,177,469	$ 27,111,874	$ 27,500,136	$ 27,500,136
Equity securities	763,833	868,292	868,292	903,201	1,040,237	1,040,237
Short-term investments	257,221	256,727	256,727	455,470	456,288	456,288
Total Investments - AFS - Excluding Life Funds Withheld Assets	24,448,486	25,302,488	25,302,488	28,470,545	28,996,661	28,996,661
Fixed Maturities - AFS - Life Funds Withheld Assets						
U.S. Government and Government agency-Related/Supported	14,866	18,724	18,724	—	—	—
Corporate	2,407,849	2,817,980	2,817,980	—	—	—
RMBS – Agency	3,301	3,782	3,782	—	—	—
RMBS – Non-Agency	71,075	85,335	85,335	—	—	—
CMBS	168,886	193,167	193,167	—	—	—
Other asset-backed securities	238,168	273,541	273,541	—	—	—
Non-U.S. Sovereign Government, Supranational and Government-Related	1,397,194	1,789,036	1,789,036	—	—	—
Total Fixed maturities - AFS - Life Funds Withheld Assets	4,301,339	5,181,565	5,181,565	—	—	—
Total Investments - AFS	28,749,825	30,484,053	30,484,053	28,470,545	28,996,661	28,996,661
Fixed maturities – HTM	—	—	—	2,858,695	3,131,235	2,858,695
Fixed maturities - Trading						
Corporate	1,180	1,171	1,171	—	—	—
Total investments - Trading	1,180	1,171	1,171	—	—	—
Other investments	1,002,871	1,248,439	1,248,439	949,310	1,167,382	1,164,630
Total investments other than investments in related parties	$ 29,753,876	$ 31,733,663	$ 31,733,663	$ 32,278,550	$ 33,295,278	$ 33,019,986

____

(1) Investments in fixed maturities, short-term investments and held to maturity are shown at amortized cost.

XL GROUP PLC
SCHEDULE II
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
CONDENSED BALANCE SHEETS – PARENT COMPANY ONLY
AT DECEMBER 31, 2014 AND 2013

(U.S. dollars in thousands)	2014	2013
ASSETS		
Cash and cash equivalents	$ 22,443	$ 12,709
Investments in subsidiaries on an equity basis	10,195,445	10,187,614
Other assets	3,017	3,014
Total assets	$ 10,220,905	$ 10,203,337
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Amounts due to subsidiaries	$ 166,782	$ 190,601
Accounts payable and accrued liabilities	20,371	15,103
Total liabilities	$ 187,153	$ 205,704
Commitments and Contingencies		
Shareholders' Equity:		
Ordinary shares, 999,990,000 authorized, par value $0.01; issued and outstanding: (2014: 255,182,955; 2013: 278,253,308)	$ 2,552	$ 2,783
Additional paid in capital	7,359,102	7,994,100
Accumulated other comprehensive income	1,484,458	736,657
Retained earnings (deficit)	1,187,640	1,264,093
Total shareholders' equity	$ 10,033,752	$ 9,997,633
Total liabilities and shareholders' equity	$ 10,220,905	$ 10,203,337

See accompanying Notes to Condensed Financial Information of Registrant

XL GROUP PLC
SCHEDULE II
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENT OF INCOME AND COMPREHENSIVE INCOME – PARENT COMPANY ONLY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(U.S. dollars in thousands)	2014	2013	2012
Net investment income	$ 275	$ 24	$ 5
Total revenues	$ 275	$ 24	$ 5
Operating expenses	$ 9,646	$ 11,699	$ 10,971
Foreign exchange (gains) losses	127	243	165
Interest expense	5	2	15
Total expenses	$ 9,778	$ 11,944	$ 11,151
Income (loss) before income tax	$ (9,503)	$ (11,920)	$ (11,146)
Equity in net earnings (losses) of subsidiaries (dividends were: 2014: $858,521; 2013: $617,719; 2012: nil)	197,843	1,071,836	662,274
Net income (loss) attributable to ordinary shareholders	$ 188,340	$ 1,059,916	$ 651,128
Net income (loss)	$ 188,340	$ 1,059,916	$ 651,128
Change in net unrealized gains (losses) on investments - excluding Life Funds Withheld Assets, net of tax	434,051	(750,755)	834,601
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 (losses) on investments - Life Funds Withheld Assets, net of tax	274,083	—	—
Change in net unrealized gains (losses) on affiliate and investments, net of tax	35,143	26,637	46,162
Change in OTTI losses recognized in other comprehensive income, net of tax	13,143	32,181	67,280
Change in underfunded pension liability	(7,550)	7,653	(3,371)
Change in value of cash flow hedge	255	439	439
Foreign currency translation adjustments	(25,729)	(54,858)	(8,156)
Comprehensive income (loss)	$ 936,141	$ 276,553	$ 1,588,083

See accompanying Notes to Condensed Financial Information of Registrant

XL GROUP PLC
SCHEDULE II
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENT OF CASH FLOWS – PARENT COMPANY ONLY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(U.S. dollars in thousands)	**2014**	**2013**	**2012**
Net income (loss)	$ 188,340	$ 1,059,916	$ 651,128
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Equity in (earnings) loss of subsidiaries	(197,843)	(1,071,836)	(662,274)
Share based compensation	81,287	46,489	47,472
Amounts due to (from) subsidiaries	(23,819)	104,590	166,853
Dividends received from subsidiaries	858,521	617,719	—
Other	(10,632)	(16,570)	(3,296)
Total adjustments	$ 707,514	$ (319,608)	$ (451,245)
Net cash provided by (used in) operating activities	$ 895,854	$ 740,308	$ 199,883
Cash flows provided by (used in) investing activities:			
Returns of capital from subsidiaries	$ 79,086	$ 84,589	$ 341,750
Net cash provided by (used in) investing activities	$ 79,086	$ 84,589	$ 341,750
Cash flows provided by (used in) financing activities:			
Proceeds from issuance of ordinary shares and exercise of stock options	$ 6,367	$ 12,623	$ 5,413
Dividends paid	(169,620)	(160,155)	(134,799)
Buybacks of ordinary shares	(801,953)	(675,617)	(402,930)
Net cash provided by (used in) financing activities	$ (965,206)	$ (823,149)	$ (532,316)
Net change in cash and cash equivalents	9,734	1,748	9,317
Cash and cash equivalents – beginning of period	12,709	10,961	1,644
Cash and cash equivalents – end of period	$ 22,443	$ 12,709	$ 10,961

See accompanying Notes to Condensed Financial Information of Registrant

XL GROUP PLC
SCHEDULE II
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
NOTES TO THE FINANCIAL STATEMENTS - PARENT COMPANY ONLY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

1. Presentation

The condensed financial information of XL Group plc reflects its directly wholly-owned subsidiaries using the equity method of accounting. To facilitate period-to-period comparisons, certain reclassifications have been made to prior year condensed financial statement amounts to conform to the current year presentation. There has been no effect on net income from this change in presentation.

2. Dividends and Returns of Capital

For the indicated years ended December 31, XL Group plc received dividends and/or returns of capital from XLIT Ltd. a wholly-owned subsidiary.

(U.S. dollars in million)	2014	2013	2012
Dividends and returns of capital	$ 940	$ 702	$ 342

3. Commitments and Guarantees

See Item 8, Note 19, “Commitments and Contingencies,” to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

XL GROUP PLC
SCHEDULE IV
REINSURANCE
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(U.S. dollars in thousands)	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
2014					
Life reinsurance in force (1)	$ —	$ 46,947,677	$ 68,854,340	$ 21,906,663	314.3%
Premiums Earned:					
Property and casualty operations	$ 5,173,403	$ 1,799,294	$ 2,343,329	$ 5,717,438	41.0%
Life operations	—	155,804	333,436	177,632	187.7%
Total premiums earned	$ 5,173,403	$ 1,955,098	$ 2,676,765	$ 5,895,070	45.4%
2013					
Life reinsurance in force (1)	$ —	$ 378,391	$ 77,917,632	$ 77,539,241	100.5%
Premiums Earned:					
Property and casualty operations	$ 4,966,207	$ 1,315,369	$ 2,363,261	$ 6,014,099	39.3%
Life operations	—	28,920	324,342	295,422	109.8%
Total premiums earned	$ 4,966,207	$ 1,344,289	$ 2,687,603	$ 6,309,521	42.6%
2012					
Life reinsurance in force (1)	$ —	$ 443,798	$ 82,099,647	$ 81,655,849	100.5%
Premiums Earned:					
Property and casualty operations	$ 4,604,323	$ 1,231,835	$ 2,393,490	$ 5,765,978	41.5%
Life operations	—	31,322	355,781	324,459	109.7%
Total premiums earned	$ 4,604,323	$ 1,263,157	$ 2,749,271	$ 6,090,437	45.1%

____
(1) Represents the sum face value outstanding of the in force life reinsurance policies.

XL GROUP PLC
SCHEDULE VI
SUPPLEMENTAL INFORMATION
CONCERNING PROPERTY/CASUALTY (RE)INSURANCE OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(U.S. dollars in thousands)	Deferred Acquisition Costs	Reserves for Losses and Loss Expenses	Reserves for Unearned Premiums	Net Earned Premiums	Net Investment Income	Losses and Loss Expenses incurred related to		Net Paid Losses and Loss Expenses	Amortization of Deferred Acquisition Costs	Net Premiums Written
						Current Year	Prior Year			
2014	$ 357,067	$ 19,353,241	$ 3,973,159	$ 5,717,438	$ 642,492	$ 3,513,469	$ (255,076)	$ 3,821,335	$ 724,003	$ 5,767,209
2013	$ 537,473	$ 20,481,065	$ 3,846,568	$ 6,014,099	$ 671,071	$ 4,021,353	$ (289,889)	$ 3,828,139	$ 882,658	$ 5,903,982
2012	$ 536,664	$ 20,484,121	$ 3,755,117	$ 5,765,978	$ 712,905	$ 4,081,376	$ (315,894)	$ 3,783,242	$ 872,399	$ 5,957,019

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 25, 2015

XL Group plc
(Registrant)

/s/ MICHAEL S. MCGAVICK

Name: Michael S. McGavick
Title: Chief Executive Officer and Director
XL Group plc

Date: February 25, 2015

/s/ PETER R. PORRINO

Name: Peter R. Porrino
Title: Executive Vice President and Chief Financial Officer
XL Group plc

POWER OF ATTORNEY

We, the undersigned directors and executive officers of XL Group plc, hereby severally constitute Michael S. McGavick, Peter R. Porrino and Kirstin Gould, and each of them singly, our true and lawful attorneys with full power to them and each of them to sign for us, and in our names in the capacities indicated below, any and all amendments to the Annual Report on Form 10-K filed with the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorneys to any and all amendments to said Annual Report on Form 10-K.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ MICHAEL S. MCGAVICK Michael S. McGavick	Chief Executive Officer (Principal Executive Officer) and Director	February 25, 2015
/s/ PETER R. PORRINO Peter R. Porrino	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 25, 2015
/s/ RAMANI AYER Ramani Ayer	Director	February 25, 2015
/s/ DALE R. COMEY Dale R. Comey	Director	February 25, 2015
/s/ ROBERT R. GLAUBER Robert R. Glauber	Director and Chairman of the Board of Directors	February 25, 2015
/s/ EDWARD J. KELLY, III Edward J. Kelly, III	Director	February 25, 2015
/s/ SUZANNE B. LABARGE Suzanne B. Labarge	Director	February 25, 2015
/s/ JOSEPH MAURIELLO Joseph Mauriello	Director	February 25, 2015
/s/ EUGENE M. MCQUADE Eugene M. McQuade	Director	February 25, 2015
/s/ CLAYTON S. ROSE Clayton S. Rose	Director	February 25, 2015
/s/ ANNE STEVENS Anne Stevens	Director	February 25, 2015
/s/ SIR JOHN VEREKER Sir John Vereker	Director	February 25, 2015

Exhibit 10.8

XL GROUP PLC
201X NONSTATUTORY STOCK OPTION AGREEMENT

THIS AGREEMENT, by and between XL Group plc, an Irish company (the "Company"), and You (the "Employee"), is effective as of ______________.

WITNESSETH:

WHEREAS, the Board of Directors of the Company believes that the interest of the Company will be advanced by granting an incentive to employees and by encouraging and enabling them to acquire stock ownership in the Company and assuring a close identity of their interests with those of the Company; and

WHEREAS, pursuant to the provisions of the 1991 Performance Incentive Program (the "Program") of the Company, the Committee (as defined in the Program) has authorized and directed the execution and delivery of this Agreement in the name of and on behalf of the Company;

NOW THEREFORE, the parties hereto agree as follows:

a. Subject and pursuant to all terms and conditions stated in this Agreement and in the Program, which is incorporated by reference into this Agreement and made a part hereof as though herein fully set forth, the Company has granted on _______________ (the "Grant Date") to the Employee the right and option to purchase all or any part of the aggregate number of Ordinary Shares of the Company (the "Shares") set forth below, to be issued or transferred as provided in the Program at the option price per share set forth below. This option shall not be treated as an incentive stock option as defined in Section 422 of the Code.

Option to purchase _________ Shares, for $______ per share.

One-third of such option shall vest and become exercisable on each of the first three anniversaries of Grant Date; provided, however, that (i) the option shall be immediately vested and exercisable in full upon termination of the Employee's employment due to his or her Death or Permanent Disability (as defined below); (ii) the option shall continue to vest and become exercisable according to the schedule set forth above following termination of employment of the Employee due to his or her Retirement (as defined below); (iii) upon termination of the Employee's employment by the Company not for Cause (as defined below) other than as set forth in clause (iv) below, the option will vest and become exercisable at the time of such termination of employment with respect to the number of Ordinary Shares, if any, that would have vested in accordance with the schedule set forth above as if the Employee's employment had continued for an additional twelve (12) months; and (iv) in the event (x) a Change of Control (as defined in the Program) occurs and (y) within two years after consummation of the Change of Control, the Employee's employment with the Company is

terminated either by the Company without Cause or by the Employee for Good Reason (as defined below), then the option shall vest in full upon such termination of employment. The portion of the option, if any, that is not exercisable immediately following termination of the Employee's employment (other than due to Retirement) shall be immediately forfeited.

For purposes hereof, "Permanent Disability" means those circumstances under which the Employee has been unable to perform his duties and responsibilities with the Company for at least 60 continuous days because of physical, mental or emotional incapacity resulting from injury, sickness or disease, and will be unable to continue to perform his or her duties and responsibilities for a total of six (6) months in any twelve (12) month period because of physical, mental or emotional incapacity resulting from injury, sickness or disease; provided, however, that with respect to any Employee who, at the time a determination concerning Permanent Disability is to be made, is employed under a written employment agreement with the Company or an Affiliate which includes a definition of "permanent disability" or "disability", Permanent Disability shall have the meaning so attributed in such employment agreement.

For purposes hereof, "Retirement" shall mean the termination of employment by the Employee if (i) such termination of employment occurs after (x) the Employee has reached age 55, (y) the Employee has a minimum of 5 years of service with the Company, and (z) the sum of the Employee's age and full years of continuous service with the Company equals or exceeds 65, and (ii) a determination has been made the Committee, in its sole discretion, that it is appropriate under the circumstances (taking into account, without limitation, the intention of the Employee with respect to future employment) for this option to become vested at the time of such termination of employment and be exercisable for the full term of the option as provided below.

For purposes hereof, "Cause" shall mean: (A) conviction of the Employee of a felony involving moral turpitude or dishonesty; (B) the Employee, in carrying out his or her duties for the Company, has been guilty of (1) gross neglect or (2) willful misconduct; provided, however, that any act or failure to act by the Employee shall not constitute Cause for this purpose if such act or failure to act was committed, or omitted, by the Employee in good faith and in a manner reasonably believed to be in the overall best interests of the Company. The determination of whether the Employee acted in good faith and that he or she reasonably believed his or her action to be in the Company's overall best interest will be in the reasonable judgment of the General Counsel of the Company or, if the General Counsel shall have an actual or potential conflict of interest, the Committee; (C) the Employee's continued willful refusal to obey any appropriate policy or requirement duly adopted by the Company and the continuance of such refusal after receipt of notice; or (D) the Employee's sustained failure to perform the essential duties of his or her role after receipt of notice.

For purposes hereof, "Good Reason" means (X) if the Employee is employed under a written employment agreement with the Company or an Affiliate which includes a definition of "good reason", the definition of "good reason" in that agreement, or (Y) if the Employee is not employed under a written employment agreement with the Company or an Affiliate which includes a definition of "good reason", "Good Reason" means the occurrence of

any of the following within two years after the occurrence of a Change of Control, unless done with the prior written consent of the Employee, where notice of termination is provided as described below: (I)(A) the assignment to the Employee of any duties inconsistent in any material adverse respect with his or her position, duties, authority or responsibilities, or (B) a material diminution of the Employee's duties, authority or responsibilities in effect immediately before the Change of Control; (II) a material reduction in the Employee's annual base salary or target annual bonus; or (III) the Company's requiring the Employee's primary office to be more than 50 miles from its then current location but only if the new office is also more than 50 miles from the Employee's principal residence; provided that the Employee must provide written notice of his or her intention to terminate employment for Good Reason to the Company within 60 days of having actual knowledge of the events giving rise to such Good Reason, which sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination for Good Reason, the Company shall have 30 days from its receipt of such notice to remedy the condition, in which case Good Reason shall no longer exist with regard to such condition, and any date of termination for Good Reason shall not be more than 180 days after the Good Reason event occurs.

b. To the extent the option herein granted becomes exercisable, it may be exercised in whole or in part by the Employee giving notice of exercise to the Program administrator designated from time to time by the Company stating the number of Shares with respect to which the option is being exercised. Such notice shall be in the form prescribed by the Company from time to time. Such exercise shall be effective upon (1) receipt of such notice by the Program administrator and (2) payment in full of the option price.

c. The Employee agrees (1) not to disclose any trade or secret data or any other confidential information acquired during employment by the Company or a subsidiary of the Company, during employment or after the termination of employment or retirement, (2) to abide by all the terms and conditions of the Program and such other terms and conditions as may be imposed by the Committee, and (3) not to interfere with the employment of any other employee of the Company or a subsidiary of the Company. Notwithstanding any provision of this Agreement to the contrary, if the Employee breaches any of the covenants set forth in this paragraph c, the option granted under this Agreement shall be immediately forfeited.

d. The option granted under this Agreement shall expire upon the first of the following events to occur:

(i) The tenth anniversary of the Agreement;

(ii) The third anniversary of the Death or Permanent Disability of the Employee;

(iii) Unless otherwise provided in an Employment Agreement between the Employee and the Company, the third anniversary of termination of the Employee's employment by the Company not for Cause or by the Employee for Good Reason, in either case within two years following a Change of Control (the "Post-Change Period");

(iv) Ninety days following termination of the Employee's employment by the Company not for Cause outside a Post-Change Period;

(v) The last date of employment of the Employee if employment is terminated by the Company for Cause; or

(vi) Thirty days after the last date of employment of the Employee if employment terminates (x) other than as set forth in (ii), (iii), (iv) or (v) of this paragraph "d" and (y) other than due to Retirement. For the avoidance of doubt, if an Employee's employment terminates due to Retirement, the option shall remain exercisable until the earlier of the Employee's Death or the tenth anniversary of the Grant Date.

e. The Employee acknowledges that when the Employee is required to recognize income for any tax purpose as a result of the exercise of an option to purchase Shares pursuant to this Agreement, that such income may be subjected to the withholding of tax by the Company. The Employee agrees that the Company may either withhold an appropriate amount from any compensation or any other payment of any kind then payable or which may become payable to the Employee, or the Company may require the Employee to make a cash payment to the Company equal to the amount of withholding required in the opinion of the Company. In the event the Employee does not make such payment when requested, the Company may refuse to issue or cause to be delivered any Shares under this Agreement entered into pursuant to the Program until such payment has been made or arrangements for such payment satisfactory to the Company have been made. In addition, upon exercise of the option, the Company may withhold or sell such number of Shares to which the Employee would otherwise be entitled, as is appropriate in the opinion of the Company, to meet any responsibility for the withholding of taxes, social payments or other amounts to the extent allowable under applicable law. The Employee shall have no rights as a shareholder with respect to any Ordinary Shares subject to this option prior to the date of exercise of the option by such Employee.

f. The option herein granted may be assigned or otherwise transferred only in the following circumstances: (i) by will or the laws of descent and distribution; (ii) by valid beneficiary designation taking effect at Death made in accordance with procedures established by the Committee; or (iii) by the Employee to members of his or her "immediate family", to a trust established for the exclusive benefit of solely one or more members of the Employee's "immediate family" and/or the Employee, or to a partnership, limited liability company or other entity pursuant to which the only owners are one or more members of the Employee's "immediate family" and/or the Employee. Any option held by the transferee will continue to be

subject to the same terms and conditions that were applicable to the option immediately prior to the transfer, except that the option will be transferable by the transferee only by will or the laws of descent and distribution. For purposes hereof, "immediate family" means the Employee's children, stepchildren, grandchildren, parents, stepparents, grandparents, spouse, siblings (including half brothers and sisters), in-laws, and relationships arising because of legal adoption.

g. The Employee shall comply with the Company's stock ownership guidelines as in effect from time to time.

h. Notwithstanding any term of this option to the contrary, the Company reserves the right to cancel this option or require the return of Shares received under this option (or the cash value of the Shares, as determined by the Board in its sole discretion) to the extent provided hereunder, and in accordance with, the Company's Clawback Policy as in effect from time to time, such Policy which is incorporated into this Agreement by reference. As a condition to the grant of this option, the Employee agrees that he or she will be subject to, and comply with the terms of, the Company's Clawback Policy as in effect from time to time as it applies to any compensation, including equity awards, bonus and other incentive awards.

i. Any notice required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given when delivered personally or by courier, or sent by certified or registered mail, postage prepaid, return receipt requested, duly addressed to the party concerned at the address indicated below or to such changed address as such party may subsequently by similar process give notice of:

If to the Company:

By Post:

XL Group plc
1 Hatch Street Upper
Dublin 2
Ireland

Attn.: General Counsel

If to the Employee:

At the electronic mail address as shown in the Company's records for the time being, or, at the Employee's most recent address shown on the Company's corporate records, or at any other address which the Employee may specify in a notice delivered to the Company in the manner set forth herein.

j. This Agreement shall be binding upon and inure to the benefit of the Company and the Employee and their respective heirs, representatives and successors.

k. The Employee, by execution of this Agreement, acknowledges receipt of the option granted on the date shown above, as well as a copy of the Program and the Program Prospectus.

l. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without reference to the principles of conflict of laws.

Exhibit 10.22

201X RESTRICTED STOCK UNIT AGREEMENT

AGREEMENT, by and between XL Group plc, an Irish company ("the Company"), and You (the "Grantee") is effective as of _______________.

WHEREAS, the Grantee is an employee of the Company and/or any of its subsidiaries (collectively called the "Company"); and

WHEREAS, the Company regards the Grantee as a valuable employee of the Company and has determined it to be in the interest of the Company to grant to the Grantee an award of Restricted Stock Units under the Company's 1991 Performance Incentive Program (the "Program");

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein, and for other good and valuable consideration, the Company and the Grantee agree as follows:

(a) Grant of Restricted Stock Units.

The Company has granted to the Grantee an award (the "Award") of ___________ Restricted Stock Units (the "Restricted Stock Units") on _____________ (the "Grant Date"), subject and pursuant to all terms and conditions stated in this Agreement and in the Program, which is incorporated by reference into this Agreement and made a part hereof as though herein fully set forth. Any capitalized terms used herein and not defined shall have the meanings given to those terms in the 1991 Performance Incentive Program.

(b) Vesting.

The Award will vest in three equal annual installments, beginning on the first anniversary of the Grant Date; provided, however, that the Award shall vest in full as set forth in subparagraphs (e)(i), (e)(ii) and (e)(v) below and shall vest as set forth in subparagraph (e)(iii) and paragraph (e)(iv) below in the event of termination of the Grantee's employment under the circumstances set forth therein. The portion of the Award, if any, that is not vested immediately following termination of the Grantee's employment (or that is not scheduled to vest under subparagraph (e)(iii) below following Retirement) shall be immediately forfeited.

(c) Distribution of Stock.

At the time the Award vests in accordance with paragraph (b) above, the Company shall distribute to the Grantee a number of Ordinary Shares, US$0.01 par value per share of the Company (the "Shares") equal to the number of Restricted Stock Units which vested; provided, however, that, notwithstanding the foregoing, to the extent the Restricted Stock Units become vested due to the Grantee's Retirement, the Ordinary Shares corresponding thereto will be distributed to the Grantee at the earliest of the following: (i) at the times the Restricted Stock Units would have otherwise vested under the regular vesting schedule set forth in paragraph (b) above, (ii) upon the death of the Grantee, or (iii) upon a Change of Control, except that, if the Restricted Stock Units are deferred compensation for purposes of Section 409A of the Code, only if the event constituting a Change of Control also constitutes a "change in control event" (as defined in Treas. Reg. Section 1.409A-3(i)(5)) with respect to the Company. Prior to the Company's delivery of the Shares, the Grantee shall pay to the Company an amount of cash equal to the par value for each of such Shares delivered.

(d) Rights and Restrictions.

The Restricted Stock Units shall not be transferable other than pursuant to will or the laws of descent and distribution. Prior to vesting of the Restricted Stock Units and delivery of the Shares to the Grantee, the Grantee shall not have any rights and privileges of a shareholder as to the Shares subject to the Award. Specifically, the Grantee shall not, except as set forth in paragraph (f) below, have the right to receive dividends or the right to vote such Shares prior to vesting of the Award and delivery of the Shares.

(e) Special Termination Provisions.

(i) Death of Grantee. In the event the Grantee dies while in the employment of the Company, the Award shall vest in full immediately.

(ii) Termination of Employment Due to Permanent Disability. In the event the Grantee's employment with the Company is terminated by the Company by reason of the Grantee's Permanent Disability, the Award shall vest in full immediately. For purposes hereof, "Permanent Disability" means those circumstances under which the Grantee has been unable to perform his duties and responsibilities with the Company for at least 60 continuous days because of physical, mental or emotional incapacity resulting from injury, sickness or disease, and will be unable to continue to perform his or her duties and

responsibilities for a total of six (6) months in any twelve (12) month period because of physical, mental or emotional incapacity resulting from injury, sickness or disease; provided, however, that with respect to any Grantee who, at the time a determination concerning Permanent Disability is to be made, is employed under a written employment agreement with the Company or an Affiliate which includes a definition of "permanent disability" or "disability", Permanent Disability shall have the meaning so attributed in such employment agreement.

(iii) Termination of Employment Due to Retirement. In the event the Grantee's employment with the Company is terminated due to his or her Retirement other than as set forth in subparagraph (e)(v) below, the Award will continue to vest in accordance with the regular vesting schedule set forth in paragraph (b) above as if the Grantee's employment had not terminated. For purposes hereof "Retirement" shall mean the termination of employment by the Grantee if (i) such termination of employment occurs after (x) the Grantee has reached age 55, (y) the sum of the Grantee's age and full years of continuous service with the Company equals or exceeds 65, and (z) the Grantee has a minimum of 5 years of service with the Company, and (ii) a determination has been made by the Committee or its designee, in its sole discretion, that it is appropriate under the circumstances (taking into account, without limitation, the intention of the Grantee with respect to future employment) for the Restricted Stock Units to continue to vest as described above.

(iv) Involuntary Termination of Employment. In the event the Grantee's employment with the Company is terminated by the Company not for Cause (as defined below) other than as set forth in subparagraph (e)(v) below, the Restricted Stock Units will vest immediately with respect to the number of Shares, if any, that would have vested in accordance with the regular vesting schedule set forth in paragraph (b) above as if the Grantee's employment had continued for an additional twelve (12) months. Any remaining unvested portion of the Restricted Stock Units will be immediately forfeited. "Cause" shall mean (i) conviction of the Grantee of a felony involving moral turpitude or dishonesty; (ii) the Grantee, in carrying out his or her duties for the Company, has been guilty of (A) gross neglect or (B) willful misconduct; provided, however, that any act or failure to act by the Grantee shall not constitute Cause for this purpose if such act or failure to act was committed, or omitted, by the Grantee in good faith and in a manner reasonably believed to be in the overall best interests of the Company; (iii) the Grantee's continued willful refusal to obey any appropriate policy or requirement duly adopted by the Company and the continuance of such refusal after receipt of notice; or (iv) Grantee's sustained failure to perform the essential duties of Grantee's role after receipt of notice. The determination of whether the Grantee acted in good faith and that he or she reasonably believed his or her action to be in the

Company's overall best interest will be in the reasonable judgment of the General Counsel of the Company or, if the General Counsel shall have an actual or potential conflict of interest, the Committee.

(v) Change of Control. In the event (x) a Change of Control (as defined in the Program) occurs and (y) within two years after consummation of the Change of Control, the Grantee's employment with the Company is terminated either by the Company without Cause or by the Grantee for Good Reason (as defined below), then the Award shall vest in full upon such termination of employment. For this purpose, "Good Reason" means (X) if the Grantee is employed under a written employment agreement with the Company or an Affiliate which includes a definition of "good reason", the definition of "good reason" in that agreement, or (Y) if the Grantee is not employed under a written employment agreement with the Company or an Affiliate which includes a definition of "good reason", "Good Reason" means the occurrence of any of the following within two years after the occurrence of a Change of Control, unless done with the prior written consent of the Grantee, where notice of termination is provided as described below: (I)(A) the assignment to the Grantee of any duties inconsistent in any material adverse respect with his or her position, duties, authority or responsibilities, or (B) a material diminution of the Grantee's duties, authority or responsibilities in effect immediately before the Change of Control; (II) a material reduction in the Grantee's annual base salary or target annual bonus; or (III) the Company's requiring the Grantee's primary office to be more than 50 miles from its then current location but only if the new office is also more than 50 miles from the Grantee's principal residence; provided that the Grantee must provide written notice of his or her intention to terminate employment for Good Reason to the Company within 60 days of having actual knowledge of the events giving rise to such Good Reason, which sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination for Good Reason, the Company shall have 30 days from its receipt of such notice to remedy the condition, in which case Good Reason shall no longer exist with regard to such condition, and any date of termination for Good Reason shall not be more than 180 days after the Good Reason event occurs.

(f) Dividend Equivalents.

As of each date on which a cash dividend is paid on Shares, the number of Restricted Stock Units subject to this Award shall be increased by that number of Restricted Stock Units (including fractional units) determined by (i): multiplying the amount of such dividend (per Share) by the number of unpaid Restricted Stock Units subject to this Award immediately before the payment of the dividend; and (ii) dividing the total so determined by the Fair Market Value of a Share on the date of payment of such cash dividend. Such additional Restricted Stock Units shall have the same terms and conditions, including, without

limitation, vesting and distribution terms and conditions, as the Restricted Stock Units in respect of which they were awarded.

(g) Status of Shares.

Upon issuance, the Shares shall rank equally in all respects with the other outstanding Shares and shall be fully paid.

(h) Adjustments for Recapitalizations, Etc.

In the event of any alteration or re-organization whatsoever taking place in the capital structure of the Company whether by way of capitalization of profits or reserves, capital distribution, rights issue, consolidation or sub-division of Shares, the conversion of one class of share to another or reduction of capital or otherwise the number of Shares subject to this Award shall be proportionately adjusted by the Board on an equitable basis.

(i) Obligations as to Capital.

The Company agrees that it will at all times maintain authorized and unissued share capital sufficient to fulfill all of its obligations under this Agreement.

(j) Withholding.

The Grantee agrees to make appropriate arrangements with the Company for satisfaction of any applicable income tax withholding requirements or social security or similar withholding requirements arising out of the Award. The Company may withhold or sell such number of Shares, to which the Grantee would otherwise be entitled, as is appropriate in the opinion of the Company to meet any responsibility for the withholding of taxes, social payments or other amounts under applicable law.

(k) Transfer Restrictions.

Grantee shall comply with the Company's stock ownership guidelines as in effect from time to time.

(l) References.

References herein to rights and obligations of the Grantee shall apply, where appropriate, to the estate or personal representative of the Grantee without regard to whether specific reference to them is contained in a particular provision of this Agreement.

(m) Notice.

Any notice required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given when delivered personally or by courier, or sent by certified or registered mail, postage prepaid, return receipt requested, duly addressed to the party concerned at the address indicated below or to such changed address as such party may subsequently by similar process give notice of:

If to the Company:

By Post:

XL Group plc
1 Hatch Street Upper
Dublin 2
Ireland

Attn.: General Counsel

If to the Grantee:

At the electronic mail address as shown in the Company's records for the time being, or, at the Grantee's most recent address shown on the Company's corporate records, or at any other address which the Grantee may specify in a notice delivered to the Company in the manner set forth herein.

(n) Section 409A.

It is intended that this Agreement will comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and any regulations and guidelines promulgated thereunder (collectively, "Section 409A"), to the extent the Agreement is subject thereto, and the Agreement shall be interpreted on a basis consistent with such intent. If an amendment of the Agreement is necessary in order for it to comply with Section 409A or

Section 457A of the Code (and not result in tax or penalties under such Sections), the Company may modify the Agreement in good faith in a manner that preserves the original intent of the parties to the extent reasonably possible. Notwithstanding any provision to the contrary in this Agreement, if Grantee is deemed on the date of his or her "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Company to be a "specified employee" (within the meaning of Treas. Reg. Section 1.409A-1(i)), then with regard to any payment that is considered deferred compensation under Section 409A payable on account of a "separation from service" that is required to be delayed pursuant to Section 409A(a)(2)(B) of the Code (after taking into account any applicable exceptions to such requirement), such payment shall be made on the date that is the earlier of (i) the expiration of the six (6)-month period measured from the date of Grantee's "separation from service," or (ii) the date of Grantee's death (the "Delay Period"). Upon the expiration of the Delay Period, all payments delayed pursuant to this paragraph (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid to Grantee in a lump sum and any remaining payments due under this Agreement shall be paid in accordance with the normal payment dates specified for them herein. Notwithstanding any provision of this Agreement to the contrary, for purposes of any provision of this Agreement providing for the payment of any amounts upon or following a termination of employment that are considered deferred compensation under Section 409A, references to Grantee's "termination of employment" (and corollary terms) with the Company shall be construed to refer to Grantee's "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Company. Whenever payments under this Agreement are to be made in installments, each such installment shall be deemed to be a separate payment for purposes of Section 409A.

(o) Clawback Policy

Notwithstanding any term of these Restricted Stock Units to the contrary, the Company reserves the right to cancel these Restricted Stock Units or require the return of Shares received under these Restricted Stock Units (or the cash value of the Shares, as determined by the Board in its sole discretion) to the extent provided under, and in accordance with, the Company's Clawback Policy as in effect from time to time, which Policy is incorporated into this Agreement by reference. As a condition to the grant of these Restricted Stock Units, the Grantee agrees that he or she will be subject to, and comply with the terms of, the Company's Clawback Policy as in effect from time to time as it applies to any compensation, including equity awards, bonus and other incentive awards.

(p) Governing Law.

This Agreement shall be governed by and construed in accordance with the laws of the State of New York without reference to the principles of conflict of laws.

Exhibit 10.25

AMENDED AND RESTATED PLEDGE AGREEMENT

AMENDED AND RESTATED PLEDGE AGREEMENT, dated as of 19th December, 2014 (as may be amended, restated or otherwise modified from time to time, this "**Agreement**"), made among **XL Investments Ltd**, a company organized under the laws of Bermuda ("XL Investments"), **XL Re Ltd**, a company organized under the laws of Bermuda ("XL Re") and **XL Insurance (Bermuda) Ltd**, a company organized under the laws of Bermuda ("XL Insurance") ("XL Investments, XL Re and XL Insurance being referred to collectively herein as the "Grantors" and individually as a "Grantor" and XL Investments and XL Insurance being collectively referred to herein as the "Guarantors") in favor of **Citibank, N.A**. (the "Bank").

Recitals:

A. XL Re has entered into (i) a Master Agreement—London Market Letter of Credit Scheme, dated as of October 21, 1996, as amended, supplemented or otherwise modified from time to time and (ii) an Insurance Letters of Credit—Master Agreement, dated as of May 19, 1993, as amended, supplemented or otherwise modified from time to time (together, the "Reimbursement Agreements") in favor of the Bank pursuant to which XL Re has agreed to, among other things, reimburse the Bank in connection with the issuance by the Bank from time to time of letters of credit for its account (the "Letters of Credit"). Each of XL Investments and XL Insurance is an affiliate of XL Re. XL Re is the account party for the account of which Letters of Credit may be issued on behalf of any of the Grantors. Accordingly, each Grantor will derive substantial direct and indirect benefit from the issuance of Letters of Credit and the transactions contemplated by the Reimbursement Agreements.

B. Each Guarantor has executed a guarantee agreement (the "Guarantee Agreement"), pursuant to which the Guarantors guarantee, jointly and severally, the payment in full of the obligations of XL Re under the Reimbursement Agreements.

C. In connection with the execution and delivery of the Reimbursement Agreements, the Grantors and the Bank entered into a Pledge Agreement, dated as of December 18, 2001 (as amended, supplemented or otherwise modified from time to time, the "Original Agreement"), to provide collateral security for the Letters of Credit and the obligations under the Guarantee Agreement, and to induce the Bank to extend credit under the Reimbursement Agreements.

D. The parties hereto wish to amend and restate the Original Agreement as set forth herein.

E. Each Grantor acknowledges that the Bank will rely on this Agreement in issuing Letters of Credit. Each Grantor further acknowledges that it has, independently and without reliance upon the Bank or any representation by or other information from the Bank, made its own credit analysis and decision to enter into this Agreement.

NOW THEREFORE, in consideration of the terms, conditions and mutual promises set forth herein, and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree that effective as of the date set forth above, the Original Agreement shall be deemed amended and restated in its entirety as follows:

Article I
Definitions

1.1. Definitions.

(a) ***Certain Definitions.*** Capitalized terms not otherwise defined herein shall have the meanings given in the Reimbursement Agreements. In addition to the other terms defined elsewhere in this Agreement, as used herein the following terms shall have the following meanings:

"Business Day" shall mean any day that is not a Saturday, Sunday or other day on which commercial banks in New York, New York, Bermuda or London, England are authorized or required by law to remain closed.

"Custodian" shall mean The Bank of New York Mellon, or any successor, or any successor custodian appointed in accordance with the terms of Section 6.11 hereof.

"Custody Agreement" shall mean the Master Custody Agreement, dated March 22, 2012, among XLIT Ltd.and the Principals named therein (of which each of the Grantors is one) and The Bank of New York Mellon as custodian, as it may be amended, restated or otherwise modified from time to time with the consent of the Bank or as entered into between the Grantors and a successor custodian in connection with the appointment of a successor custodian in accordance with the terms of Section 6.11 hereof.

"Designated Accounts" shall mean, collectively, the custodial securities accounts maintained with the Custodian pursuant to terms of the Custody Agreement and set forth on Exhibit A hereto and the related deposit account number(s) referred to in the Custodian's Acknowledgment (as defined below), as it may be amended from time to time. Custodial securities account(s) and deposit account(s) maintained by a Grantor with the Custodian may be designated as Designated Accounts pursuant to a Pledge Supplemental; provided, however, that no custodial securities account or deposit account may be a Designated Account if any party to the Custody Agreement other than the Grantor maintaining such account has any interest therein or in any securities entitlements or other financial assets credited thereto. Exhibit A shall be amended to reflect each addition or withdrawal of a securities account as a Designated Account."

"Distributions" shall mean all property, rights and interests of any kind or nature (whether cash, securities or other) from time to time received, receivable or otherwise distributed with respect to or in exchange for any Collateral, including all cash, securities or other property received or receivable as dividends, or as a result of any stock splits, reclassifications, mergers or consolidations, or as any other distributions (whether similar or dissimilar to the foregoing), or as a result of exercise of any options, warrants or rights included in or associated with any, Collateral, or as principal, interest or premium.

"Dollar Equivalent Amount" of any Qualifying Collateral shall mean (i) with respect to any Qualifying Collateral denominated in a currency other than U.S. Dollars, the amount of U.S. Dollars that would be required to purchase the amount of such currency, based upon the then prevailing spot selling rate at which the Bank offers to sell such currency for U.S. Dollars in the relevant foreign exchange market and (ii) with respect to any Qualifying Collateral denominated in U.S. Dollars, the market value of such Qualifying Collateral as most recently determined at the time in question in accordance with Section 2.2(b).

"Event of Default" shall mean (a) a Grantor's failure to pay when due any obligation owing by it to the Bank under either Reimbursement Agreement or this Agreement, (h) a Grantor's failure to perform or observe any other term or covenant of either Reimbursement Agreement or this Agreement or deliver any document required to be delivered by it under either Reimbursement Agreement or this Agreement, if such failure (other than a failure to comply with the requirements of Section 2.2 hereof) shall not be remedied for a period of twenty (20) days after written notice thereof to such Grantor from the Bank, (c) any representation or warranty made by any Grantor in or in connection with either Reimbursement Agreement or this Agreement or any amendment or modification of either Reimbursement Agreement or this Agreement, or in any certificate or financial statement furnished pursuant to the provisions of either Reimbursement Agreement or this Agreement, shall prove to have been false or misleading in any material respects as of the time made or furnished, (d) a decree or order by a court having jurisdiction in the premises shall have been entered adjudging any Grantor a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization of such Grantor under the Bermuda Companies Law or any other similar applicable law, and such decree or order shall have continued undischarged or unstayed for a period of 60 days; or a decree or order of a court having jurisdiction in the premises for the appointment of an examiner, receiver or liquidator or trustee or assignee in bankruptcy or insolvency of such Grantor or a substantial part of its property, or for the winding up or liquidation of its affairs, shall have been entered, and such decree or order shall have continued undischarged and unstayed for a period of 60 days, (e) any Grantor shall institute proceedings to be adjudicated as voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization under the Bermuda Companies Law or any other similar applicable law, or shall consent to the filing of any such petition, or shall consent to the appointment of an examiner, receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or a substantial part or its property, or shall make an assignment

for the benefit of the creditors, or shall admit in writing its inability to pay its debts generally as they become due, or corporate or other action shall be taken by such Grantor in furtherance of any of the aforesaid purposes, or (f) any Grantor or any of its subsidiaries shall default (i) in any payment of principal of or interest on any other obligation for borrowed money in principal amount of $50,000,000 or more, or any payment of any principal amount of $50,000,000 or more under Hedging Agreements, in each case beyond any period of grace provided with respect thereto, or (ii) in the performance of any other agreement term condition contained in any such agreement (other than Hedging Agreements), under which any such obligation in principal amount of $50,000,000 or more is created, if the effect of such default is to cause or permit the holder or holders of such obligation (or trustee on behalf of such holder or holders) to cause such obligation to become due prior to its stated maturity or to terminate its commitment under such agreement; provided that this clause (1) shall not apply to secured indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such indebtedness.

"Hedging Agreement" shall mean any interest rate protection agreement, foreign currency exchange agreement, commodity price protection agreement or other interest or currency exchange rate or commodity price hedging arrangement.

"Investment Manager" shall mean, with respect to each Designated Account, any investment manager appointed by the applicable Grantor to manage investment decisions with respect to such Designated Account.

“Letter of Credit Value” means, in respect of each component of the Qualifying Collateral, (a) (x) the market value of the Security or (y) the cash value, in each case: (i) subject to the provisions of Schedules 1 and 2; and (ii) multiplied by the percentage specified in the table set out in Schedule 1 under the column headed “Letter of Credit Value” for that type of Security or for cash; and if at any time there is more than one component part to the Qualifying Collateral, the Letter of Credit Value for the Qualifying Collateral shall be the sum of the Letter of Credit Values for each component part of the Qualifying Collateral; or (b) such other amount calculated in such other manner as mutually agreed upon from time to time by the Bank and Grantor.

"Lien of this Agreement" shall mean the security interest granted by this Agreement.

“Person” shall mean any individual, sole proprietorship, partnership, corporation, business trust, joint stock company, trust, unincorporated organization, association, limited liability company, limited liability partnership, institution, public benefit corporation, joint venture, entity or governmental entity.

"Pledge Supplement" shall mean a supplement to this Agreement in the form of Exhibit B hereto, executed by a Grantor for the purpose of designating one or more securities accounts maintained by such Grantor with the Custodian as Designated Accounts hereunder. Any Pledge Supplement delivered under this Agreement may be delivered by facsimile transmission or electronic “.pdf” file, with an original copy sent by regular mail.

"Secured Obligations" shall mean, collectively, (i) all obligations (whether or not constituting future advances) from time to time of XL Re to the Bank under or in connection with either Reimbursement Agreement, (ii) all obligations from time to time of any Grantor to the Bank under or in connection with this Agreement, in each case including all obligations to pay reimbursement obligations, principal, interest, fees, indemnities or other amounts, and in each case whether such obligations are direct or indirect, secured or unsecured, joint or several, absolute or contingent, due or to become due, whether for payment or performance, now existing or hereafter arising (including interest and other obligations arising or accruing after the commencement of any bankruptcy, insolvency, reorganization or similar proceeding with respect to any Grantor or any other Person, or which would have arisen or accrued but for the commencement of such proceeding, even if such obligation or the claim therefor is not enforceable or allowable in such proceeding) and (iii) all obligations from time to time of any Guarantor in respect of the Guarantee Agreement.

"UCC" shall mean the Uniform Commercial Code as in effect in the State of New York on the date hereof.

(b) ***Certain Cross-References.*** The following terms are defined in this Agreement in the Section or other place indicated: "Collateral" and “Custodian’s Acknowledgment” in Section 2.1; “Collateral Value Requirement” in Section 2.2; "Grantor", "Grantors" and "Guarantors" in the Preamble; "notices" in

Section 6.3; “Qualifying Collateral” in Section 2.2; and “Guarantee Agreement”, “Original Agreement” and "Reimbursement Agreements" in the Recitals.

1.2. UCC Definitions. Unless otherwise defined herein, terms defined in Articles 8 or 9 of the UCC shall have the same meanings in this Agreement.

Article II
The Security

2.1. Grant of Security. (a) As security for the full and timely payment and performance of the Secured Obligations, each Grantor hereby assigns and pledges to the Bank, and grants to the Bank, a security interest in, all right, title and interest of such Grantor in, to and under the following, whether now or hereafter existing or acquired (the "Collateral"):

(i) the Designated Account with respect to such Grantor and each security entitlement (as such term is defined in Section 8-102(a)(17) of the UCC) from time to time credited to such Designated Account and all financial assets (as such term is defined in Section 8-102(a)(9) of the UCC) and all cash from time to time deposited therein;

(ii) all claims and rights of whatever nature which such Grantor may now have or hereafter acquire against any third party(ies) in respect of any of the Collateral described in this Section 2.1(a) (including any claims or rights in respect of any security entitlements credited to an account of the Custodian maintained at The Depository Trust Company or any other clearing corporation) or any other securities intermediary (as such terms are defined in Section 8-102(a) of the UCC);

(iii) all rights which such Grantor may now have or hereafter acquire against the Custodian in respect of its holding and managing all or any part of the Collateral; and

(iv) all proceeds (as such term is defined in Section 9-102(a) of the UCC) of any of the foregoing.

(b) Concurrently with the execution of this Agreement, (i) each of the Grantors, the Bank and the Custodian have executed and delivered Amendment No. 5 to the Control and Consent Acknowledgment and Agreement Concerning Designated Accounts dated as of December 18, 2001 (as amended, supplemented or otherwise modified from time to time, the "Custodian's Acknowledgment").

(c) Each Grantor acknowledges that the Custodian is a securities intermediary (as such term is defined in Section 8-102(a) of the UCC) for such Grantor; each Grantor agrees with the Bank that notwithstanding any provision of this Agreement or any other circumstance, the Bank shall have at all times control (as defined in Section 8-106 of the UCC) of each Designated Account and the Collateral, as confirmed in the Custodian's Acknowledgment, and shall be authorized to direct the Custodian to comply with, and the Custodian shall comply with, entitlement orders (as such term is defined in Section 8102(a) of the UCC) originated by the Bank with respect to the Collateral without further consent of any Grantor or any Investment Manager or any other person acting or purporting to act for such Grantor.

(d) Each Grantor shall deliver, from time to time, to the Bank (with a copy to the Custodian) a Pledge Supplement setting forth each additional Designated Account, if any. Each Pledge Supplement, upon its delivery to the Bank, shall be deemed to be incorporated in this Agreement. Any Pledge Supplement delivered under this Agreement may be delivered by telecopier and will be effective when so delivered, it being the intention of the parties that an "ink" copy thereof will be sent (and the Grantors agree that they will send such "ink" copy) promptly thereafter by regular mail or overnight courier.

2.2. Collateral Value, etc. (a) The Grantors shall cause Collateral of the type specified in Schedule 1 (excluding any financial assets issued by Grantors, its corporate parent, its affiliates and its subsidiaries or any other financial instrument as determined by Bank) (the “Qualifying Collateral”) to be pledged as Collateral so that at all times the Letter of Credit Value of such Securities shall equal or exceed an amount equal to the aggregate amount of the then outstanding Credits (the “Collateral Value Requirement”); and without limiting the foregoing, if at any time the Grantors are not in compliance with the requirements

of this subsection (a), the Grantors shall within one Business Day cause additional cash or Securities of the type specified in Schedule 1 to be held as Collateral pursuant to Article II to the extent required to cause the Grantors to be in compliance with this subsection (a). "Qualifying Collateral" is limited to cash and securities in a Designated Account which are not subject to any security interest or lien in favor of any person other than the security interest of the Bank under this Agreement and the Custodian's Acknowledgment.

(b) In determining compliance by the Grantors with the Collateral Value Requirement, the Bank may use any commercially reasonable valuation or classification method determined by the Bank to be appropriate.

2.3. Substitution and Withdrawal, etc. (a) So long as no Event of Default has occurred and is continuing, and the market value of the Qualifying Collateral satisfies the Collateral Value Requirement and the Grantors are in compliance with their obligations pursuant to the terms of Section 9(iii) of the Custodian's Acknowledgement, any Grantor may:

(i) substitute new Collateral for any existing Collateral, provided that, after giving effect to any such substitution, the new Collateral has an equivalent Letter of Credit Value to the substituted Collateral and the substituted Collateral is transferred to, or already maintained in, Designated Accounts;

(ii) deliver additional Collateral to the Designated Accounts.

(iii) Any request by the Grantors not constituting an action described in Sections 2.3(a)(i) or (ii) above shall require the written consent of the Bank; provided, however, that the Bank shall not unreasonably withhold its consent to a request not constituting an action described in Sections 2.3(a)(i) or (ii) above if, before and after giving effect to such request, the Letter of Credit Value of the Designated Account equals or exceeds the Collateral Value Requirement.

(b) Whenever a Grantor substitutes new Collateral in place of existing Collateral (such existing Collateral hereinafter referred to as "Replaced Collateral") pursuant to and in compliance with the foregoing provisions of Section 2.3(a)(i) hereof, or otherwise causes the sale, exchange or transfer of, or causes the termination of the pledge of, Collateral, in each case with the prior written consent of the Bank pursuant to Section 2.3(a)(iii) above, the Bank shall be deemed to have released all right, title or interest in or to such Replaced Collateral and such sold, exchanged, transferred or terminated Collateral (and the proceeds thereof) arising hereunder. The sale, exchange or transfer of Collateral in accordance with this Section 2.3(b) shall occur upon the consummation of the sale or other transfer of ownership of such Collateral by a Grantor to any third party or the consummation of a transfer of Collateral from a Designated Account to another securities account maintained for such Grantor.

(c) (c) Upon payment and satisfaction in full of the Secured Obligations and termination of the Reimbursement Agreements, the Bank shall promptly release to the Grantors all of the Bank's right, title and interest in or to the Collateral to the extent arising under or pursuant to this Agreement.

2.4. Delivery of Property. In the event that a Grantor receives any new securities, instruments, documents or other property by reason of ownership of the Collateral), such Grantor shall promptly deliver all such property to the Custodian, to be held by the Custodian in the Designated Accounts of such Grantor as part of the Collateral. Promptly upon receipt thereof, each Grantor agrees to deliver to the Bank all documents evidencing such property, together with appropriate bond, stock or other powers duly executed by such Grantor.

2.5. Investment Risk and Taxes. As between the Bank and the Grantors, the Grantors shall bear the investment risk with respect to the Collateral, and the risk of loss of, damage to, or the destruction of the Collateral, whether in possession of, or maintained as a security entitlement by, or subject to the control of, the Bank, the Custodian, a Grantor or another party, provided, however, that nothing contained in this Section 2.5 shall release or relieve the Custodian of its duties and obligations to Grantors or any other party under the Custody Agreement or applicable law. Further, the Grantors shall promptly pay all taxes, fees and charges of whatever kind or nature with respect to the Collateral, all other taxes payable by any Grantor which, if unpaid, could become a charge against the Collateral, and any stamp duty or tax payable with respect to this Agreement. If the Grantors do not make such payments, then the Bank may (but is in no way obligated to) pay such amounts for the account of the applicable Grantor and any such amounts paid will be added to the amount of the Secured Obligations.

2.6. Continuing Agreement. This Agreement creates a continuing security interest in the Collateral and shall continue in full force and effect until all Secured Obligations have been paid in cash and performed in full and all Letters of Credit have terminated, subject in any event to reinstatement in accordance with Section 2.9. Upon the payment in cash and performance in full of all Secured Obligations and termination of all Letters of Credit, the security interest granted hereby shall terminate and all rights to the Collateral shall revert to the applicable Grantor. Upon any such termination, the Bank will, at the Grantors' request and expense, return to the applicable Grantor, without any representations, warranties or recourse of any kind whatsoever, such of the Collateral as then may be held by the Bank hereunder, and execute and deliver to the applicable Grantor such documents as the such Grantor may reasonably request to evidence such termination.

2.7. Rights and Interests of Bank Absolute. The obligations of each Grantor under this Agreement are independent of the Secured Obligations, and a separate action or actions may be brought and prosecuted against any Grantor regardless of whether action is brought against any other Grantor or any other Person or whether any other Grantor or any other Person is joined in any such action or actions. The security interest granted hereby shall secure payment and performance of the Secured Obligations strictly in accordance with the terms of hereof, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting the Secured Obligations (or the rights of the Bank or any other Person with respect thereto). The security interest of the Bank hereunder shall be absolute, unconditional and irrevocable and all other rights and interests of the Bank hereunder, and all obligations of each Grantor hereunder, shall be absolute and irrevocable, irrespective of any of the following:

(a) any lack of legality, validity, enforceability, allowability (in a bankruptcy, insolvency, reorganization, dissolution or similar proceeding, or otherwise), or any avoidance or subordination, in whole or in part, of any of the Secured Obligations;

(b) any change in the amount, nature, time, place or manner of payment or performance of, or in any other term of, any of the Secured Obligations (specifically including any increase in the Secured Obligations, whether resulting from the extension of additional credit or otherwise);

(c) any taking, exchange, release, impairment or nonperfection of any Collateral, or any taking, release, impairment or amendment or waiver of or consent to departure from any guaranty or other direct or indirect security for any of the Secured Obligations (it being understood that a release of Collateral in accordance with the terms of this Agreement is not rendered ineffective by reason of this Section 2.7(c));

(d) any manner of application of Collateral or other direct or indirect security for any of the Secured Obligations, or proceeds thereof, to any of the Secured Obligations, or any manner of sale or other disposition of any Collateral for any of the Secured Obligations or any other assets of any Grantor;

(e) any impairment by the Bank or any other Person of any recourse of any Grantor against the Bank or any other Person, or any other impairment by the Bank or any other Person of the suretyship status of either Grantor;

(f) any bankruptcy, insolvency, reorganization, dissolution or similar proceeding with respect to, or any change, restructuring or termination of the corporate structure or existence of, any Grantor or any other Person;

(g) any failure of the Bank or any other Person to disclose to any Grantor any information pertaining to the business, operations, condition (financial or otherwise) or prospects of the other Grantors or any other Person, or to give any other notice, disclosure or demand; or

(h) any other event or circumstance (including any right of set off, defense of failure of consideration, breach of representation or warranty, statute of frauds, bankruptcy, lack of capacity, statute of limitations, release, accord and satisfaction or usury, and excluding only the defense of full, strict and indefeasible payment and performance) that might otherwise constitute a defense available to, a discharge of, or a limitation on the obligations of, any Grantor or a guarantor or surety.

2.8. Waivers, etc. Each Grantor hereby irrevocably waives any defense to or limitation on its obligations under this Agreement arising out of or based upon any matter referred to in Section 2.7 and, without limiting the generality of the foregoing, any requirement of promptness, diligence or notice of acceptance, any other notice, disclosure or demand with respect to any of the Secured Obligations and this Agreement, any requirement of acceptance hereof, reliance hereon or knowledge hereof by the Bank, and any requirement that the Bank protect, secure, perfect or insure any lien or any property subject thereto or exhaust any right or take any action against any other Grantor or any other Person or any direct or indirect security for any of the Secured Obligations.

2.9. Reinstatement. This Agreement shall continue to be effective, or be automatically reinstated, as the case may be, if at any time payment of any of the Secured Obligations is avoided, rescinded or must otherwise be returned by the Bank for any reason, all as though such payment had not been made.

2.10. No Stay. Without limiting the generality of any other provision of this Agreement, if any acceleration of the time for payment or performance of any Secured Obligation, or any condition to any such acceleration, shall at any time be stayed, enjoined or prevented for any reason (including stay or injunction resulting from the pendency against any Grantor or any other Person of a bankruptcy, insolvency, reorganization, dissolution or similar proceeding), each Grantor agrees that, for purposes of this Agreement and its obligations hereunder, at the option of the Bank such Secured Obligation shall be deemed to have been accelerated and such condition to acceleration shall be deemed to have been met.

2.11. Subrogation, etc. Any rights which any Grantor may have or acquire by way of subrogation, reimbursement, restitution, exoneration, contribution or indemnity, and any similar rights (whether arising by operation of law, by agreement or otherwise), against any other Grantor or any other Person, arising from the existence, payment, performance or enforcement of any of the obligations of any Grantor under or in connection with this Agreement, shall be subordinate in right of payment to the Secured Obligations, and such Grantor shall not exercise any such rights until all Secured Obligations have been paid in cash in full and all Letters of Credit shall have terminated. If, notwithstanding the foregoing, any amount shall be received by any Grantor on account of any such rights at any time prior to the time at which all Secured Obligations shall have been paid in cash and performed in full and all Letters of Credit shall have terminated, such amount shall be held by such Grantor in trust for the benefit of the Bank, segregated from other funds held by such Grantor, and shall be forthwith delivered to the Bank in the exact form received by such Grantor (with any necessary endorsement), to be held as additional Collateral. The forgoing will not, so long as no Event of Default has occurred and is continuing, preclude any Grantor from receiving and retaining amounts paid to it by a Person pursuant to a separate agreement between such Grantor and such Person, which separate agreement provides to such Grantor no subrogation rights under any document referred to herein.

Article III
Representations and Warranties

Each Grantor hereby represents and warrants to the Bank as follows:

3.1. Title. Such Grantor is the legal and beneficial owner of the Collateral (other than the Collateral of which any other Grantor is the legal and beneficial owner), free and clear of any lien, security interest, option or other charge or encumbrance, except for the security interest under this Agreement in favor of the Bank securing the Secured Obligations and the Custodian's right of set-off described in Section 4 of the Custodian's Acknowledgment. No effective financing statement or other item similar in effect, and no control agreement, in each case covering any Collateral is or will be on file in any recording office or otherwise in effect, except such as may be filed or made in favor of the Bank relating to this Agreement.

3.2. Validity, Perfection and Priority. This Agreement creates a valid security interest in the Collateral in favor of the Bank securing the Secured Obligations, which security interest is, and will be, prior to all other liens, security interests, options or other charges or encumbrances subject, however, to the Custodian's right of set-off described in Section 4 of the Custodian's Acknowledgment. .

3.3. Governmental Approvals and Filings. Other than the filing of this Agreement with the Registrar of Companies in Bermuda, no authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is or will be necessary (a) for the grant by such Grantor of the security interest in the Collateral hereunder or for the execution, delivery or performance of this Agreement by such Grantor, (b) to ensure the validity, perfection or priority of the security interest in the Collateral granted hereunder, or (c) for the exercise by the Bank of any of its rights or remedies hereunder, except as may be required in connection with a disposition of Collateral constituting securities by laws affecting the offering and sale of securities generally.

3.4. Powers; Enforceability; etc. Such Grantor has, and will at all times have, the necessary power to enable it to execute and deliver this Agreement and perform the obligations expressed to be assumed by it under this Agreement and its execution, delivery and performance of this Agreement do not violate its charter or by-laws or any applicable law or regulation or any contract or agreement to which it is a party. This Agreement constitutes the legal, valid and binding obligation of such Grantor, enforceable in accordance with its terms, except that (A) the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws now or hereafter in effect relating to or affecting creditors' rights or remedies generally and (B) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and the discretion of the court before which any proceeding therefor may be brought.

3.5. Names, etc. Intentionally Omitted.

3.6. Margin Stock. None of the Collateral constitutes "margin stock," as that term is used in Regulations T, U or X of the Board of Governors of the Federal Reserve System, as amended from time to time.

Article IV
Covenants

4.1. Books and Records. Each Grantor shall, and shall cause the Custodian to (a) keep complete and accurate books and records concerning the Collateral and, at the request of the Bank from time to time, permit the Bank or its representatives to inspect and copy such books and records, (b) at the request of the Bank from time to time, permit the Bank or its representatives to inspect any Collateral not in the possession of the Bank, and (c) furnish to the Bank such information and reports in connection with the Collateral at such times and in such form as the Bank may reasonably request. The Bank shall have the right to examine and verify the Collateral from time to time, and such Grantor shall, and shall cause the Custodian to, cooperate with the Bank in such examination.

4.2. Transfers and Other Liens.

(a) Transfers. No Grantor shall sell, assign, transfer or otherwise dispose of any Collateral (voluntarily or involuntarily, by operation of law or otherwise), except as permitted by Section 2.3 hereof.

(b) Other Liens. No Grantor shall create or permit to exist any lien, security interest, option or other charge or encumbrance on any Collateral (voluntarily or involuntarily, by operation of law or otherwise), except for the security interest under this Agreement in favor of the Bank securing the Secured Obligations and the Custodian's right of set-off described in Section 4 of the Custodian's Acknowledgment.

4.3. Change in Name, Office, etc. Each Grantor shall (a) not, without at least 30 days prior written notice to the Bank, have, use or be known by any corporate or fictitious name or trade name (other than its corporate name as of the date hereof), nor be the subject of any merger, consolidation or other corporate reorganization, nor otherwise change its name, identity or corporate structure, (b) give 30 days notice to the Bank of any change in its chief executive office (which on the date hereof is with respect to each Grantor, O'Hara House, One Bermudiana Road, Hamilton HM08 Bermuda) and the offices (whether maintained by such Grantor or otherwise) where books and records relating to the Collateral are kept (which on the date hereof are such Grantor's office at the aforesaid address and the office of the Custodian at One Mellon Bank

Center, Pittsburgh, PA 15258) and (c) maintain its jurisdiction of incorporation and its chief executive office in Bermuda.

4.4. Certain Covenants.

(a) ***Voting Rights.***

(i) General. Subject to Section 4.4(a)(ii), each Grantor shall be entitled to exercise all voting and other consensual rights pertaining to the Collateral; provided, that no Grantor shall exercise or refrain from exercising any such right if such action would (A) conflict with any provision of this Agreement, or (B) impair the value of any Collateral or impair the interest or rights of any Grantor or the Bank.

(ii) Certain Rights of Bank If an Event of Default has occurred and is continuing, the Bank may from time to time give notice to the Grantors revoking in whole or in part the rights of the Grantors under Section 4.4(a)(i). If and to the extent such notice has been given, all voting and other consensual rights pertaining to the Collateral shall thereupon be vested in the Bank, who shall thereafter have the sole right to exercise or refrain from exercising such rights.

(iii) Proxies, etc. The Bank shall, if necessary, execute and deliver to the Grantors such proxies and other instruments as the Grantors may reasonably request for the purpose of enabling each Grantor to exercise the voting and other consensual rights which it is entitled to exercise pursuant to Section 4.4(a)(i). Each Grantor hereby grants the Bank an irrevocable proxy, with full power of substitution, coupled with an interest, to exercise all voting and other consensual rights pertaining to the Collateral, exercisable if and to the extent that the Bank is entitled to exercise such rights pursuant to Section 4.4(a)(ii). All third parties are entitled to rely conclusively on a representation by the Bank that it is entitled to exercise such power of attorney.

(b) ***Distributions.***

(i) General. Subject to Section 4.4(b)(ii), the Grantors shall be entitled to receive and retain all Distributions.

(ii) Certain Rights of Bank If an Event of Default has occurred and is continuing, all rights of any Grantor to receive and retain the Distributions that it would otherwise be authorized to receive and retain pursuant to Section 4.4(b)(i) shall automatically cease, and all such rights shall thereupon vest in the Bank. Such Distributions shall be Collateral, and shall be forthwith delivered to the Custodian to hold as such.

(iii) Payment Over. If any Grantor receives any payment or property which, pursuant to Section 4.4(b)(ii), it is not entitled to retain, such payment or property shall be received in trust for the benefit of the Bank, shall be segregated from other funds and property of such Grantor, and shall be forthwith delivered to the Custodian as Collateral in the same form as so received (with any necessary endorsement).

4.5. Further Assurances.

General. Each Grantor shall from time to time, at its expense, promptly execute and deliver all further instruments and agreements, and take all further actions, that may be necessary or appropriate, or that the Bank may reasonably request, in order to perfect or protect any assignment, pledge or security interest granted or purported to be granted hereby or to enable the Bank to exercise or enforce its rights and remedies hereunder. Without limiting the generality of the foregoing, each Grantor will execute and file such financing or continuation statements, or amendments thereto, and such other instruments or notices, as may be necessary or desirable, or as the Bank may request, in order to perfect and preserve any assignment, pledge or security interest granted or purported to be granted hereby.

(a) Filings, etc. Each Grantor hereby authorizes the Bank to file this Agreement with the Registrar of Companies in Bermuda and to file one or more financing or continuation statements, and amendments thereto, relating to any Collateral without the signature of such Grantor where permitted by law. A photocopy or other reproduction of this Agreement or any financing statement covering any Collateral shall

be sufficient as a financing statement or other filing required to perfect a security interest in the Collateral where permitted by law, it being understood that the filing of an original of this Agreement or a certified copy thereof with the Registrar of Companies in Bermuda is required to perfect the security interest granted hereunder.

Article V
Certain Rights and Remedies of the Bank

5.1. Bank May Perform. If any Grantor fails to perform any obligation under or in connection with this Agreement, the Bank may itself perform or cause performance of such obligation, and the expenses of the Bank incurred in connection therewith shall be payable by the Grantors pursuant to Section 6.4. The Bank may from time to time take any other action which the Bank deems necessary or appropriate for the maintenance, preservation or protection of any of the Collateral or of its security interest therein.

5.2. No Duty to Exercise Powers. The powers of the Bank under and in connection with this Agreement are solely to protect its interest in the Collateral and shall not impose any duty upon it to exercise any such powers.

5.3. Duties of Bank. Except for exercise of reasonable care in the custody and preservation of any Collateral in its possession and accounting for moneys received by it pursuant to this Agreement, the Bank (in its capacity as such) shall have no duty as to any Collateral. In any event the Bank (a) shall have no duty to take any steps to preserve rights against prior parties or any other rights pertaining to any Collateral, (b) shall have no duty as to ascertaining or taking action with respect to calls, conversions, exchanges, tenders, maturities or other matters pertaining to any Collateral, whether or not the Bank has any knowledge of such matters, and (c) shall not be liable for any action, omission, insolvency or default on the part of any agent or custodian (other than the Bank) appointed by the Bank in good faith. The Bank shall be deemed to have exercised reasonable care in the custody and preservation of Collateral in its possession if it takes such action for such purpose as the Grantors request in writing from time to time (but failure to take any such action shall not in itself be deemed necessarily a failure to exercise reasonable care or evidence of such failure). Subject only to the performance by the Bank of its duties set forth in this Section 5.3, risk of loss, damage and diminution in value of the Collateral, of whatever nature and however caused, shall be on the Grantors.

5.4. Remedies. Upon the occurrence of an Event of Default, the Bank shall have all the rights and remedies available to it under law or at equity, including those of a secured party under the UCC (whether or not, to the extent permitted by applicable law, the UCC is in effect in the jurisdiction where the rights and remedies are asserted) or applicable commercial or other law, and may immediately exercise any and all such rights and remedies whether or not the Bank has made any demand of the Grantors, taken any action of any nature against the Grantors or resorted to any other collateral which the Bank may have with respect to the Secured Obligations, all as the Bank shall, in its sole discretion, determine. Upon the occurrence of an Event of Default, the Bank shall have the right to cause the Collateral to be reregistered in the Bank's sole name or the name of it's nominee and shall have the right, to the fullest extent permitted by applicable law, to direct the Custodian to sell all or any part of the Collateral in a commercially reasonable manner upon any exchange or at any public or private sale at the option of the Bank at any time or times without advertisement or demand or notice to the Grantors (all of which are hereby waived), except such notice as is required by applicable statute and cannot be waived; with the right on the part of the Bank or its nominee to become the purchaser thereof at any such sale (unless prohibited by statute). Without limiting the generality of the foregoing, it is contemplated that the Bank will use good faith efforts to refrain from causing the Custodian to liquidate substantially more securities constituting Collateral than the Bank determines or estimates are necessary to generate the cash amounts referred to in the second sentence of Section 5.6 hereof, it being understood that, without *limiting* the generality of Section 5.3 or the preceding sentence, the Bank shall have no obligation or liability to any Grantor on account of liquidations of such securities yielding proceeds in excess of such cash amounts and the Bank shall not have responsibility to marshal assets or otherwise refrain from exercising its sole and absolute discretion in determining when to sell Collateral and which Collateral to sell. If any notification of intended sale of any of the Collateral is required by law, such notification shall be deemed reasonable if made in accordance with Section 6.3 hereof at least five days before such sale. It is understood that the Bank may cause the Custodian to dispose of the Collateral or any of it through any of the Bank's securities brokerage affiliates. The Bank shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral if the Collateral is accorded treatment substantially equal to that which the

Bank accords its own property, it being understood that the Bank shall not have any responsibility for taking any necessary steps to preserve rights against parties with respect to the Collateral. In no event shall the Bank be deemed a trustee of or fiduciary in respect of the Collateral. The proceeds of each collection, sale or other disposition under this Section 5.4 shall be promptly applied in accordance with Section 5.6 hereof. Each of the Grantors recognizes that, by reason of certain prohibitions contained in the Securities Act of 1933, as amended, and applicable state securities laws, the Bank may be compelled, with respect to any sale of all or any part of the Collateral, to limit purchasers to those who will agree, among other things, to acquire the Collateral for their own account, for investment and not with a view to the distribution or resale thereof.

5.5. Appointment of Bank as Attorney-in-Fact. Each Grantor hereby appoints and constitutes the Bank, its successors and assigns, as such Grantor's agent and attorney-in-fact for the purpose of effecting, perfecting, and continuing the grant of security interest in the Collateral to the Bank under this Agreement and the exercise of the Bank's rights and remedies upon the occurrence of an Event of Default hereunder and taking any action or executing any document or instrument that the Bank deems necessary or convenient for such purpose, including the power to endorse and deliver checks, notes and other instruments for the payment of money in the name of and on behalf of such Grantor, to endorse and deliver in the name of and on behalf of such Grantor securities or other certificates and execute and deliver in the name of or on behalf of such Grantor instruments to the issuers of uncertificated securities and to execute and file in the name of and on behalf of such Grantor financing statements, mortgages, charges or similar documents and continuations and amendments thereto. This appointment is coupled with an interest and is irrevocable and will not be affected by the bankruptcy or insolvency of such Grantor or any circumstances whatsoever. Each Grantor agrees that the Custodian, each Investment Manager, the issuers of any Collateral or any registrar or transfer agent shall be entitled to accept the provisions hereof as conclusive evidence of the Bank's rights to effect any transfer pursuant to this Agreement and the authority granted to the Bank hereunder, notwithstanding any other notice as direction to the contrary heretofore or hereinafter given by such Grantor or any other party.

5.6. Application of Payments. All cash held by the Bank as Collateral and all cash proceeds received by the Bank in respect of any sale of, collection from, or other realization upon any of the Collateral, may in the discretion of the Bank be held by the Bank as collateral for the Secured Obligations, or then or at any time thereafter applied (after payment of any amounts payable to the Bank pursuant to Section 6.4) in whole or part by the Bank to the Secured Obligations (whether or not then due) in such order as the Bank may elect, but not in contravention of the express terms hereof. If and when all Secured Obligations shall have been paid in cash in full and all Letters of Credit shall have terminated, any surplus of such cash or cash proceeds held by the Bank shall be paid over to the Grantors or as otherwise required by law. If the proceeds of sale, collection or other realization of or upon the Collateral pursuant to this Section 5.6 hereof are insufficient to cover the costs and expenses of such realization and the payment in full of the Secured Obligations, the Grantors shall remain liable for any deficiency.

Article VI
Miscellaneous

6.1. Amendments, etc. No amendment to or waiver of any provision of this Agreement, and no consent to any departure by any Grantor herefrom, shall in any event be effective unless in a writing manually signed by the Bank. Any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

6.2. No Implied Waiver; Remedies Cumulative. No delay or failure of the Bank in exercising any right or remedy under this Agreement shall operate as a waiver thereof; nor shall any single or partial exercise of any such right or remedy preclude any other or further exercise thereof or the exercise of any other right or remedy. The rights and remedies of the Bank under this Agreement are cumulative and not exclusive of any other rights or remedies available hereunder, under any other agreement, at law, or otherwise.

6.3. Notices. Unless otherwise specified in this Agreement, notices shall be in writing and shall be effective, if to a Grantor, when received by such Grantor c/o XL Group plc, Treasury Department, XL House, 8 St. Stephen’s Green, Dublin 2, Ireland, Attn: Vice President, Corporate Treasury and, if to the Bank, when received at 388 Greenwich Street, 22nd Floor, New York, NY 10013 Attn: Mike Taylor, or, in any

case, such other address as the Bank, on the one hand, or any of the Grantors, on the other hand, may notify the other in writing. The Grantors and the Bank further agree that, if any notice given by a party triggers an obligation on the part of the party receiving the notice which requires an affirmative action to be taken by such receiving party within five Business Days of the receipt of such notice, then such notice shall be given by telecopier.

6.4. Indemnity and Expenses.

(a) Indemnity. Each Grantor agrees, jointly and severally, to indemnify the Bank from and against any and all claims, losses, liabilities and expenses (including reasonable attorney's fees and expenses) arising out of or resulting from this Agreement (including, without limitation, enforcement of this Agreement), except claims, losses, liabilities and expenses resulting solely from the gross negligence or willful misconduct of the Bank.

Expenses. Each Grantor agrees, jointly and severally, to pay upon demand to the Bank the amount of all reasonable fees and expenses, including the reasonable fees and expenses of its counsel (which, in any event, shall be limited to one counsel in any one jurisdiction) and of any experts and agents, which the Bank may incur in connection with (i) the administration of this Agreement, (ii) any Event of Default and any enforcement or collection proceeding resulting therefrom, including, without limitation, all manner of participation in or other involvement with (x) bankruptcy, insolvency, receivership, foreclosure, winding up or liquidation proceedings, or any actual or attempted sale, or any exchange, enforcement, collection, compromise or settlement in respect of any of the Collateral, and for the care of the Collateral and defending or asserting rights and claims of the Bank in respect thereof, by litigation or otherwise, (y) judicial or regulatory proceedings and (z) workout, restructuring or other negotiations or proceedings (whether or not the workout, restructuring or transaction contemplated thereby is consummated), (iii) the enforcement of this Section 6.4 or (iv) the failure by any Grantor to perform or observe any of the provisions hereof; provided that the Grantors shall not be liable for any fees and expenses resulting solely from the gross negligence or willful misconduct of the Bank. All such fees and expenses shall be Secured Obligations entitled to the benefits of the collateral security provided pursuant to Section 2.1 hereof. Without limiting the foregoing, the Grantors shall pay and reimburse the Bank on demand for all reasonable fees and expenses incurred by them in liquidating the Collateral pursuant hereto.

6.5. Entire Agreement. This Agreement constitutes the entire agreement of the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous understandings and agreements**.**

6.6. Survival. The obligations of each Grantor under Sections 2.5, 2.9 and 6.4 shall survive termination of this Agreement and all other events and conditions whatever. All representations and warranties of the Grantors contained in or made in connection with this Agreement shall survive, and shall not be waived by, the execution and delivery of this Agreement, any investigation by or knowledge of the Bank, any extension of credit, termination of this Agreement, or any other event or circumstance whatever.

6.7. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, and all such counterparts shall constitute but one and the same agreement. Delivery of an executed signature page of this Agreement by facsimile transmission or electronic ".pdf" file shall be effective as delivery of a manually executed counterpart hereof.

6.8. Severability. If any one or more of the provisions hereof or in any other related document should for any reason be invalid, illegal, or unenforceable in any respect, the validity, legality, or enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby, and such invalid, illegal, or unenforceable provision shall be deemed modified to the extent necessary to render it valid while most nearly preserving its original intent.

6.9. Construction. In this Agreement, unless the context otherwise clearly requires, references to the plural include the singular, the singular the plural, and the part the whole; the neuter case includes the masculine and feminine cases; and "or" is not exclusive. In this Agreement, any references to property (and similar terms) include an interest in such property (or other item referred to); "include," "includes," "including" and similar terms are not limiting; and "hereof," "herein," "hereunder" and similar terms refer to this Agreement as a whole and not to any particular provision. Section and other headings in this Agreement are for reference

only and shall not affect the interpretation of this Agreement in any respect. Section and other references in this Agreement are to this Agreement unless otherwise specified.

6.10. Successors and Assigns. This Agreement shall be binding upon each Grantor and its successors and assigns, and shall inure to the benefit of and be enforceable by the Bank and its successors and assigns.

6.11. Successor Custodian. The Grantors may appoint a successor Custodian upon no less than 60 days prior written notice to the Bank, which successor Custodian shall become the Custodian for all purposes of this Agreement upon establishing securities accounts which will become Designated Accounts, receiving all Collateral required to be deposited to such securities accounts and crediting such Collateral to such securities accounts; provided that (i) such successor Custodian shall be an institution qualified to maintain securities accounts for customers or depositors and to perform the functions of a securities intermediary with respect to the Collateral, of recognized national standing as a securities intermediary and custodian, and have a capitalization of not less than $500,000,000, (ii) such successor Custodian shall have its principal place of business in the United States, which principal place of business shall be located in, and the securities accounts shall be maintained in, a jurisdiction which has enacted the 1994 revisions to Article 8 and the 2000 revisions to Article 9 of the Uniform Commercial Code, (iii) such successor Custodian shall have the ability to, and shall have agreed to, provide electronic access to the Designated Accounts and/or valuation reports to the Bank and the Grantors when requested to do so, which may be as frequently as daily and (iv) such successor Custodian shall have entered into and provided a custodian acknowledgment in favor of the Bank and such other agreements and documentation which are reasonably required by the Bank, all in form and substance reasonably satisfactory to the Bank; provided further that upon the occurrence and during the continuance of an Event of Default, the Bank shall have the absolute right at any time to appoint itself as successor Custodian. In the event the Bank appoints itself as successor Custodian as set forth above, (i) the Grantors shall cause the then current Custodian to transfer all Collateral in the Designated Accounts at such time to such account(s) as the Bank shall direct and (ii) the Grantors hereby acknowledge that the Collateral shall continue to be subject to the security interest created hereby.

6.12. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, exclusive of choice of law principles.

6.13. Consent to Jurisdiction; Service of Process. Each Grantor irrevocably submits to the non-exclusive jurisdiction of any state or federal court sitting in New York, New York, for itself and in respect of any of its property and, if a law other than the law of the State of New York, has been chosen to govern a Letter of Credit, each Grantor also irrevocably submits to the non-exclusive jurisdiction of any state or federal court sitting in such jurisdiction, in each case in connection with any suit, action or proceeding relating to this Agreement or such Letter of Credit. Each Grantor agrees not to bring any action or proceeding against the Bank in any jurisdiction not described in the immediately preceding sentence. Each Grantor irrevocably waives any objection to venue or any claim of inconvenient forum in connection with any such action, suit or proceeding. Each Grantor agrees that any service of process or other notice of legal process may be served upon it by mail or hand delivery if sent to CT Corporation System at 111 Eighth Avenue, New York, NY 10016 which the Grantors now designate as their authorized agent for the service of process in the courts in the State of New York. (If no authorized agent is designated in the space provided above, each Grantor agrees that process shall be deemed served if sent to its address given for notices under this Agreement.) Each Grantor agrees that nothing in this Agreement shall affect the Bank's right to serve process in any other manner permitted by law or to commence legal proceedings or otherwise proceed against any Grantor in any other jurisdiction. Each Grantor agrees that final judgment against it in any action or proceeding shall be enforceable in any other jurisdiction within or outside the United States of America by suit on the judgment, a certified copy of which shall be conclusive evidence of the judgment.

6.14. Waiver of Immunity. To the extent any Grantor now has or hereafter acquires any immunity from jurisdiction of any court or from suit, jurisdiction, attachment before or after judgment or execution or from any other legal process with respect to itself or its property, such Grantor irrevocably waives such immunity with respect to its obligations under this Agreement.

6.15. Set-off. If any Event of Default shall occur and be continuing, the Bank may set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by the Bank to or for the credit or the account of any of the Grantors ("Deposits")

against any and all of the Grantors' obligations under this Agreement, irrespective of whether or not the Bank shall have made any demand under this Agreement and although such Deposits or obligations may be unmatured or contingent. The Bank's rights under this section are in addition to other rights and remedies (including other rights of set-off) which the Bank may have under this Agreement or applicable law.

6.16. Currency. For the purpose of or pending the discharge of any of the Secured Obligations, Bank may convert any monies received, recovered or realised or subject to application by Bank under this Agreement (including the proceeds of any previous conversion under this Section 6.16) from their existing currency of denomination into such other currency of denomination as the relevant Secured Obligation may be denominated (to the extent of any mismatch at such time, in the aggregate, between the currencies of such monies and the currencies in which the relevant Secured Obligations to be discharged are denominated), and any such conversion shall be effected at the Bank’s then prevailing spot rate of exchange for obtaining such other currency with the existing currency.

(b) References herein to any currency extend to any funds of that currency and for the avoidance of doubt funds of one currency may be converted into different funds of the same currency.

[*Signature Pages Follow*]

IN WITNESS WHEREOF, each of the parties hereto has executed and delivered this Agreement as of the date first above written.

XL RE LTD

By: _/s/ Mark Twite________________
Name: Mark Twite
Title: Chief Financial Officer

XL INSURANCE (BERMUDA) LTD

By: _/s/ C. Stanley Lee _______________
Name: C. Stanley Lee
Title: SVP, Chief Financial Officer

XL INVESTMENTS LTD

By: _/s/ C. Stanley Lee _______________
Name: C. Stanley Lee
Title: SVP, Chief Financial Officer

CITIBANK, N.A.

By: ___/s/ Peadar Mac Canna __
Name: Peadar Mac Canna
Title: Managing Director

SCHEDULE 1

LETTER OF CREDIT VALUE AND BANK'S REQUIREMENTS

Description of component part of Qulifying Collateral	**Bank's Requirements**			**Letter of Credit Value**
	Issuer	***Rating***	***Tenor***	
Cash	Cash Deposits held in the Designated Account solely to the extent that such cash is proceeds of investment property held in the Designated Account	AA- or AA- equivalent or better	N/A	100%
Government & Agency Securities	Securities issued by the US or another OECD (the "Organisation for Economic Co-operation and Development") Government, or issued by agencies whose debt obligations are fully and explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the US or OECD government, and including securities issued by the FHLMC or FNMA to the extent the same shall be under the conservatorship of the Federal Housing Finance Agency. Government and Agency Securities shall have a maximum tenor of 20 years. Securities issued by GNMA whose debt obligations are fully and explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the US Government. GNMA Securities shall have a maximum tenor of 30 years.	AA- or AA- equivalent or better	<20 years	90% of the fair market value of such Securities
Multilateral Lending Institution Securities	Multilateral lending institutions or regional development banks including International Bank for Reconstruction and Development (the World Bank), the International Finance Corporation, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the European Investment Bank, the European Bank for Reconstruction and Development and the Nordic Investment Bank.	AA- or AA- equivalent or better	<20 years	90% of the fair market value of such Securities

No Citigroup Inc, Convertibles, Perpetuals or Warrants will be included in Qualifying Collateral.

Should an eligible pledged asset be assigned a rating by an agency which is divergent from the rating assigned by any other agency, the Bank will always utilise the lowest rating in determining collateral eligibility.

Any Securities that do not comply with the requirements set out above will not be considered part of the Qualifying Collateral solely for the purposes of calculating the Collateral Value Requiremet.

Pledged assets constituting "Qualifying Collateral" shall exclude any Financial Assets issued by Grantors, their corporate parent, its affiliates and its subsidiaries or any other financial instrument as determined by Bank.

EXHIBIT A

DESIGNATED ACCOUNTS

Grantor	Designated Account
XL Investments	
XL Re	XLUF01007602
XL Insurance (Bermuda) LTD	

EXHIBIT B

[FORM OF DESIGNATION OF DESIGNATED ACCOUNT(S)]

This Designation of Designated Accounts(s), dated as of the date set forth below, is made by the undersigned corporation ("Grantor") to Citibank, N.A., (the "Bank") and is delivered pursuant to the Pledge Agreement, dated as of December 18, 2001 (as amended or supplemented from time to time, the "Pledged Agreement") between XL Investments Ltd, XL Re Ltd and XL Insurance (Bermuda) Ltd, as Grantors, and the Bank.

Defined terms used in this Designation and not otherwise defined shall have the meaning given such terms in the Pledge Agreement.

The following securities accounts maintained by the Grantor with the Custodian are hereby designated as a Designated Account pursuant to the Pledge Agreement:

[________________]

[________________]

Date:

For and on Behalf of:

[XL RE LTD][XL INVESTMENTS LTD][XL INSURANCE (BERMUDA) LTD]

By: __

Name: Title:

Copy: Mellon Bank, NA., as Custodian

[1] Insert as appropriate.

Exhibit 10.37

1 North Wall Quay
Dublin 1
Ireland

T +353 1 622 2000
F +353 1 622 2222

FROM: Citibank Europe plc (the "**Issuing Bank**")

TO: XL Insurance (Bermuda) Ltd **(the "Applicant")**

DATE: 30 December 2014

FACILITY & FEE LETTER

Dear Sir/Madam,

We refer to the Facility & Fee Letter dated 11th November, 2009 and amended on 23rd August, 2011 between the Issuing Bank and the Applicant regarding an uncommitted letter of credit facility, as amended, varied, supplemented, novated or assigned as the case may be (the "Facility & Fee Letter").

1. The Issuing Bank and the Applicant agree that as effective from the date of this letter the uncommitted letter of credit issuance facility amount of $750,000,000.00 referred to in the Facility & Fee Letter shall be amended to read $600,000,000.

2. Except as expressly amended by this letter, the Facility & Fee Letter remains unmodified and in full force and effect. In the event of a conflict or inconsistency between the terms of this letter and the terms of the Facility & Fee Letter, the terms of this letter shall prevail.

3. Capitalised terms not defined herein shall have the meaning ascribed thereto in the Facility & Fee Letter (including where such terms are defined in the Facility & Fee Letter by reference to the Master Agreement), as applicable.

4. Paragraphs 10 and 11 of the Facility & Fee Letter shall apply to this letter as if set out in full.

5. Please indicate your agreement to the foregoing by countersigning the attached copy of this letter and returning the same to us.

6. This letter shall be governed by English law.

Please confirm your agreement to the above by countersigning the attached copy of this letter and returning the same to us.

For and on behalf of
Citibank Europe plc

..../s/ Niall Tuckey.................

Name: __ Niall Tuckey ____

Title: _Director_____

We agree to the terms set out in this letter.

For and on behalf of
XL Insurance (Bermuda) Ltd

..../s/ C. Stanley Lee..

Name: __C. Stanley Lee_____

Title: SVP, Chief Financial Officer

Exhibit 10.38

Dated 30 December 2014

XL INSURANCE (BERMUDA) LTD
as Applicant

-and-

ING BANK N.V., LONDON BRANCH
as Bank

CREDIT FACILITY AGREEMENT

Credit facility of up to $150,000,000

holman fenwick willan hfw

INDEX

1.DEFINITIONS AND INTERPRETATIONS 2

2.THE FACILITY - GENERAL PROVISIONS 13

3.THE FACILITY - SPECIFIC PROVISIONS 13

4.CONDITIONS APPLICABLE TO LETTERS OF CREDIT 16

5.PAYMENTS 18

6.NO SET-OFF, COUNTERCLAIM OR TAX DEDUCTION 19

7.ACCOUNTS OF THE BANK 22

8.APPLICATION OF MONEYS 22

9.COLLATERAL ACCOUNT 23

10.CONDITIONS PRECEDENT 23

11.SECURITY 24

12.REPRESENTATIONS AND WARRANTIES 24

13.UNDERTAKINGS 28

14.EVENTS OF DEFAULT 31

15.FEES, EXPENSES, INDEMNITIES AND MITIGATION 34

16.INCREASED COST 37

17.ILLEGALITY 40

18.CHANGE OF PLEDGOR 40

19.ASSIGNMENTS AND TRANSFERS 42

20.SET-OFF 44

21.MISCELLANEOUS 44

22.FURTHER ASSURANCE 45

23.NOTICES 45

24.APPLICABLE LAW AND JURISDICTION 47

SCHEDULE 1 - CONDITIONS PRECEDENT DOCUMENTS AND EVIDENCE48

SCHEDULE 2 - FORM OF APPLICATION50

SCHEDULE 3 - FORM OF CANCELLATION NOTICE OF ISSUED LETTER OF CREDIT51

SCHEDULE 4 - FORM OF

REDUCTION NOTICE FOR ISSUED LETTER OF CREDIT52

SCHEDULE 5 - FORM OF INCREASE

NOTICE FOR ISSUED LETTER OF CREDIT53

SCHEDULE 6 - FORM OF

EXTENSION NOTICE FOR ISSUED LETTER OF CREDIT54

SCHEDULE 7 - INVESTMENT

COLLATERAL55

SCHEDULE 8 - COMPLIANCE

CERTIFICATE56

SCHEDULE 8 - FORM OF

BORROWING BASE CERTIFICATE58

SCHEDULE 9 - FORM OF LETTER OF

CREDIT60

THIS AGREEMENT dated 30 December 2014 is made

BETWEEN:

(1) **XL INSURANCE (BERMUDA) LTD** as Applicant; and

(2) **ING BANK N.V., LONDON BRANCH** as Bank.

WHEREAS

The Bank has agreed to make available to the Applicant, subject as provided in this Agreement, an uncommitted credit facility of up to $150,000,000 to provide Funds at Lloyd's Letters of Credit at the request of the Applicant to support and stand security for the underwriting capacity of the Applicant and XL Re in relation to the Syndicates of which they are or will be a member or will provide capital support to the member.

IT IS AGREED AS FOLLOWS

1. **DEFINITIONS AND INTERPRETATIONS**

1.1 **Definitions**

In this Agreement, including the Recitals, the following expressions shall have the following meanings:

"**Accession Letter**" has the meaning given to it in Clause 18;

"**Additional Pledgor**" means any company appointed as Pledgor in accordance with the provisions of Clause 18;

"**Adjusted Market Value**" means:

(a) in respect of any Investment Collateral denominated in Dollars, the Market Value thereof;

(b) in respect of any Investment Collateral denominated in a currency other than Dollars, the discounted Market Value thereof as converted into Dollars in accordance with Clause 3.8;

"**Advance Rate**" means, for any category of Investment Collateral (other than Cash, the "**Eligible Securities**"), the percentage described opposite such category of Cash or Eligible Securities in the column entitled "Advance Rate" and, in the case of Eligible Securities, subject to the maturity criteria set out therein;

"**Applicable Insurance Regulatory Authority**" means, when used with respect to any Regulated Insurance Company:

(a) the insurance department or similar administrative authority or agency located in each state or jurisdiction in which such Regulated Insurance Company is domiciled; or

(b) to the extent asserting regulatory jurisdiction over such Regulated Insurance Company, the insurance department, authority or agency in each state or jurisdiction in which such Regulated Insurance Company is licensed, and shall include any federal or national insurance regulatory department, authority or agency that may be created and that asserts insurance regulatory jurisdiction over such Regulated Insurance Company;

"**Applicant**" means XL Insurance (Bermuda) Ltd, a company organised and existing under the laws of Bermuda with company registration number 12809 whose registered office is at XL House, One Bermudiana Road, Hamilton HM08, Bermuda;

"**Application**" means an application for the issuance of a Letter of Credit by the Bank and to be made substantially in the form attached in Schedule 2;

"**Application Date**" means any day on which an Application is received by the Bank;

"**Authorised Officer**" means, as to any Person, the chief executive officer, the chief financial officer, the controller, the president, any vice president, the secretary or any other officer of such Person duly authorised by such Person to act on behalf of such Person hereunder and under the other Finance Documents;

"**Banking Day**" means a day (excluding Saturdays and Sundays) on which dealings in deposits in Dollars may be carried out in the London interbank market and on which banks and foreign exchange markets are open for business in London, Bermuda and New York;

"**Borrowing Base**" means, at any time the Adjusted Market Value of any Cash and Eligible Securities held by the Pledgors in the Collateral Account at such time multiplied in each case by the respective Advance Rates for Cash and such Eligible Securities **provided that** all Cash and Eligible Securities in respect of any Borrowing Base shall only be included in such Borrowing Base to the extent the same are subject to a first priority perfected Security Interest in favour of the Bank pursuant to the Pledge and Security Agreement;

"**Borrowing Base Certificate**" means a certificate issued by the Applicant, certifying the Borrowing Base, such certificate to be substantially in the form of Schedule 9 with such amendments as the Bank may approve or any other form agreed by the Bank with the Applicant;

"**Capital Lease Obligations**" of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP;

"**Cash**" means "cash" deposited in the Collateral Account;

"**Change of Control**" means, in the case of an Obligor, if the Persons owning the Voting Interests in that Obligor as at the date hereof cease to own 51% or more of the Voting Interests in that Obligor other than as a result of (a) an acquisition by XL Group, any of its Subsidiaries or any employee benefit plans of XL Group of the Obligor; or (b) the Obligor merging or consolidating with or undertaking a similar reorganisation into any Subsidiary of XL Group; or (c) another Person (other than a Subsidiary of XL Group) merging into the Obligor or the Obligor conveys, sells, transfers or leases all or substantially all of its assets to another Person (other than a Subsidiary) in a transaction: (i) that does not result in a reclassification, conversion, exchange or cancellation of the outstanding shares of capital stock of the Obligor (other than the cancellation of any outstanding shares of capital stock of the Obligor held by the Person with whom it merges or consolidates) or (ii) which is effected solely to change the jurisdiction of incorporation of the Obligor and results in a reclassification, conversion or exchange of outstanding shares of capital stock of the Obligor solely into shares of capital stock of the surviving entity;

"**Code**" means the United States Internal Revenue Code of 1986, as amended from time to time;

"**Collateral Account**" means the collateral account held with the Custodian by the Applicant with account number XLCF0101922 or such other collateral account held with the Custodian by any Pledgor, in respect of which first priority Security Interests over the Investment Collateral are to be granted in favour of the Bank pursuant to the Pledge and Security Agreement, subject at all times to the terms of the Control Agreement;

"**Collateral Type 1**" has the meaning given to it in Schedule 7;

"**Collateral Type 2**" has the meaning given to it in Schedule 7;

"**Collateral Type 3**" has the meaning given to it in Schedule 7;

"**Collateral Type 4**" has the meaning given to it in Schedule 7;

"**Collateral Type 5**" has the meaning given to it in Schedule 7;

"**Compliance Certificate**" means a certificate substantially in the form of Schedule 8;

"**Confidential Information**" means all information relating to any Obligor, the Group, the Finance Documents or the Facility of which the Bank becomes aware or which is received by the Bank in relation to the Finance Documents or the Facility from any Obligor or any member of the Group or any of its advisers, in whatever form, and includes information given orally and any document electronic file or any other way of representing or recording information which contains or is derived or copied from such information but excludes information that:

(a) is or becomes public information other than as a direct or indirect result of any breach by the Bank of Clause 19.5; or

(b) is identified in writing at the time of delivery as non-confidential by any Obligor or any of its advisers; or

(c) is known by the Bank before the date the information is disclosed to it or is lawfully obtained by the Bank after that date, from a source which is, as far as the Bank is aware, unconnected with the Obligors and the Group and which, in either case, as far as the Bank is aware, has not been obtained in breach of, and is not otherwise subject to, any obligation of confidentiality;

"**Consolidated Net Worth**" means the consolidated stockholders' equity of XL Group and its consolidated Subsidiaries in accordance with GAAP;

"**Control Agreement**" the control agreement or control agreements to be made between the Custodian, the Bank and the Applicant relating to the Collateral Account, in the agreed form;

"**Custodian**" means The Bank of New York Mellon acting through its office at One BNY Mellon Center, 500 Grant Street, AIM 151-1035 Pittsburgh, PA 15258-0001, USA or such other bank or financial institution agreed between the Bank and the Applicant;

"**Custody Agreement**" means the master custody agreement dated as of 22 March 2012 between the Applicant, XLIT LTD., the other parties identified as "Principals" thereunder, and the Custodian, as

amended, restated, modified or supplemented to, and each other custody agreement entered into by the Applicant and the Custodian;

"**Default Rate**" means the annual rate of interest determined by the Bank to be equal to the aggregate of 3.0% and LIBOR;

"**Disruption Event**" means either or both of:

(a) a material disruption to those payment or communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the Facility (or otherwise in order for the transactions contemplated by the Finance Documents to be carried out) which disruption is not caused by, and is beyond the control of, any of the Parties; or

(b) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a party preventing that, or any other party:

(i) from performing its payment obligations under the Finance Documents; or

(ii) from communicating with other parties in accordance with the terms of the Finance Documents,

and which (in either such case) is not caused by, and is beyond the control of, the party whose operations are disrupted;

"**Dollars**" or "**$**" means the lawful currency from time to time of the United States of America;

"**Eligible Securities**" has the meaning provided in the definition of the term "Advance Rate";

"**Event of Default**" means any of the events listed in Clause 14.1;

"**Exempted Indebtedness**" means any Financial Indebtedness of any Person (other than XL Group or any of its affiliates) that is consolidated on the balance sheet of XL Group and its consolidated Subsidiaries in accordance with GAAP (whether or not required to be consolidated) provided that (a) at the time of the incurrence of such Financial Indebtedness by such Person, the cash flows from the assets of such Person shall reasonably be expected by such Person to liquidate such Financial Indebtedness and all other liabilities (contingent or otherwise) of such Person and (b) no portion of such Financial Indebtedness of such Person shall be Guaranteed (other than guarantees of the type referred to in clause (a) or (b) of the definition of Financial Indebtedness) by, or shall be secured by a Security Interest on any assets owned by XL Group or any of its Subsidiaries and neither such Person nor any holders of such Financial Indebtedness shall have any direct or indirect recourse to XL Group or any of its Subsidiaries (other than in respect of liabilities and guarantees of the type referred to in clause (a) or (b) of the definition of Financial Indebtedness;

"**Existing Facility**" means the letter of credit facility agreement of up to $750,000,000 provided to the Applicant by Citibank Europe PLC pursuant to a master agreement dated 11 November 2009 (as amended and supplemented from time to time) and in respect of which the Bank holds a sub-participation on the date of this Agreement in the amount of $150,000,000;

"**Facility**" means the uncommitted letter of credit facility of up to $150,000,000 to be made available by the Bank to the Applicant under this Agreement and, as the context may require, means the available amount of such facility from time to time outstanding under this Agreement;

"**FAL**" has the meaning given to the term "Funds at Lloyd's" in paragraph 16 of Lloyd's Membership Byelaw (No. 5 of 2005);

"**FATCA**" means:

(a) sections 1471 to 1474 of the Code or any associated regulations;

(b) any treaty, law, regulation of any other jurisdiction, or relating to an intergovernmental agreement between the United States and any other jurisdiction, which (in either case) facilitates the implementation of paragraph (a) above; or

(c) any agreement pursuant to the implementation of any treaty, law or regulation referred to in paragraphs (a) or (b) above with the United States Internal Revenue Service, the United States government or any governmental or taxation authority in any other jurisdiction;

"**FATCA Deduction**" means a deduction or withholding from a payment under a Finance Document required by FATCA;

"**FATCA Exempt Party**" means a Party that is entitled to receive payments free from any FATCA Deduction;

"**Finance Documents**" means this Agreement, the documents specified in Clause 11 and any other document designated as such by the Bank and the Applicant;

"**Financial Indebtedness**" means, for any Person, without duplication:

(a) all indebtedness or liability for or on account of money borrowed by, or for or on account of deposits with or advances to (but not including accrued pension costs, deferred income taxes or accounts payable of) such Person;

(b) all obligations (including contingent liabilities) of such Person evidenced by bonds, debentures, notes, banker's acceptances or similar instruments;

(c) all indebtedness or liability for or on account of property or services purchased or acquired by such Person;

(d) any indebtedness or liability secured by a Security Interest on property owned by such Person (whether or not assumed) and Capital Lease Obligations of such Person (without regard to any limitation of the rights and remedies of the holder of such Security Interest or the lessor under such capital lease to repossession or sale of such property);

(e) the maximum available amount of all standby letters of credit issued for the account of such Person and, without duplication, all drafts drawn thereunder (to the extent unreimbursed); and

(f) all Guarantees of such Person; provided that the following shall be excluded from Financial Indebtedness for purposes of this Agreement:

    (i) all payment liabilities of any such Person under insurance and reinsurance policies from time to time issued by such Person, including guarantees of any such payment liabilities;

    (ii) all other liabilities (or guarantees thereof) arising in the ordinary course of any such Person's business as an insurance or reinsurance company (including GICs and Stable Value

Instruments and any Specified Transaction Agreement relating thereto), or as a corporate member of The Council of Lloyd's, or as a provider of financial or investment services or contracts (including GICs and Stable Value Instruments and any Specified Transaction Agreement relating thereto); and

(iii) any Exempted Indebtedness;

"**GAAP**" means generally accepted accounting principles in the United States of America;

"**GIC**" means a guaranteed investment contract or funding agreement or other similar agreement issued by an Obligor or any of its Subsidiaries that guarantees to a counterparty a rate of return on the invested capital over the life of such contract or agreement;

"**Governmental Authority**" means the government of any nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government;

"**Group**" means XL Group and its Subsidiaries for the time being;

"**Guarantee**" means, with respect to any Person, without duplication, any obligations of such Person (other than endorsements in the ordinary course of business of negotiable instruments for deposit or collection) guaranteeing or intended to guarantee any Financial Indebtedness of any other Person in any manner, whether direct or indirect, and including any obligation, whether or not contingent:

(a) to purchase any such Financial Indebtedness or any property constituting security therefor for the purpose of assuring the holder of such Financial Indebtedness;

(b) to advance or provide funds or other support for the payment or purchase of any such Financial Indebtedness or to maintain working capital, solvency or other balance sheet condition of such other Person (including keepwell agreements, maintenance agreements, comfort letters or similar agreements or arrangements) for the benefit of any holder of Financial Indebtedness of such other Person;

(c) to lease or purchase property, securities or services primarily for the purpose of assuring the holder of such Financial Indebtedness; or

(d) to otherwise assure or hold harmless the holder of such Financial Indebtedness against loss in respect thereof.

The amount of any Guarantee hereunder shall (subject to any limitations set forth therein) be deemed to be an amount equal to the outstanding principal amount of the Financial Indebtedness in respect of which such Guarantee is made. The terms “Guarantee” and “Guaranteed” used as a verb shall have a correlative meaning;

"**Hedging Obligations**" means with respect to any person, the net liability of such person under any futures contract or options contract (including property catastrophe futures and options), interest rate swap agreements and interest rate collar agreements and all other agreements or arrangements for non-speculative purposes designed to protect such person against catastrophic events, fluctuations in interest rates or currency exchange rates that are entered into in the ordinary course of business of that person;

"**Insurance Business**" means one or more aspects of the business of selling, issuing or underwriting insurance or reinsurance;

"**Insurance Licence**" means any licence (including a licence or a certificate of authority from an Applicable Insurance Regulatory Authority), permits or authorisations to transact insurance and reinsurance business;

"**Interpolated Screen Rate**" means, in relation to LIBOR, the rate which results from interpolating on a linear basis between:

(a) the applicable Screen Rate for the longest period (for which that Screen Rate is available) which is less than the relevant period; and

(b)the applicable Screen Rate for the shortest period (for which that Screen Rate is available) which exceeds the relevant period,

each at or about 11:00 a.m. London time on the Quotation Day;

"**Investment Collateral**" means cash, securities, investments and other collateral listed in Schedule 7, which is held in the name of the Applicant or any other Pledgor with the Custodian in the Collateral Account and which is capable of being marked to market on a daily basis;

"**Issuance Date**" means, in relation to a Letter of Credit, the Banking Day on which the Applicant specifies in the relevant Application that it wishes that a Letter of Credit be issued by the Bank or (as the context requires) the date on which that Letter of Credit is actually issued by the Bank;

"**Legal Reservations**" means:

(a) the principle that equitable remedies may be granted or refused at the discretion of a court, the limitation of enforcement by laws relating to insolvency, reorganisation and other laws generally affecting the rights of creditors;

(b) the time barring of claims under the Limitation Acts, the possibility that an undertaking to assume liability for or indemnify a person against non-payment of United Kingdom stamp duty may be void and defences of set-off or counterclaim; and

(c) any general principles which are set out in the qualifications as to matters of law in the legal opinions delivered to the Bank pursuant to Clause 10.1;

"**Letter of Credit**" means any letter of credit issued or to be issued by the Bank at the request of the Applicant pursuant to this Agreement in the form set out in Schedule 10 or in such other form as required by Lloyd's from time to time;

"**LIBOR**" means, in relation to any relevant period:

(a)the applicable Screen Rate; or

(b)(if no Screen Rate is available for the relevant currency for the relevant period), the Interpolated Screen Rate for the relevant period; or

(c) (if no Screen Rate is available for that period and it is not possible to calculate an Interpolated Screen Rate for that period), the arithmetic mean of the rates (rounded upwards to four decimal places) quoted to the Bank by leading banks in the London interbank market,

at or about 11:00 a.m. London time on the Quotation Day for the offering of deposits in Dollars and for a period comparable to that period provided that, if any such rate is below zero, LIBOR will be deemed to be zero;

"**Limitation Acts**" means the Limitation Act 1980 (as amended) and the Foreign Limitation Periods Act 1984;

"**Lloyd's**" means the Society incorporated by the Lloyd's Act 1871 by the name of Lloyd's;

"**Lloyd's Rules**" means the Lloyd's Acts 1871-1982 and the byelaws, regulations (including, if applicable, regulations of the Financial Conduct Authority or the Prudential Regulation Authority) codes of practice and mandatory directions and requirements governing the conduct and management of underwriting business at Lloyd's applicable and in force from time to time;

"**Market Value**" means:

(a) in respect of Cash, the cash amount in the currency in which it is denominated; and

(b) in respect of any other Investment Collateral (subject to Clauses 3.7.6 and 3.8), the mark-to-market value of such Investment Collateral in the currency in which it is denominated;

"**Material Adverse Effect**" means a material adverse effect on (a) the assets, business, financial condition or operations of any Obligor (b) the ability of an Obligor to perform any of its payment or other material obligations under the Finance Document;

"**Net Worth Deficiency**" means that, at any time, the Consolidated Net Worth of XL Group and its Subsidiaries is less than $3,000,000,000 (or its equivalent in other currencies);

"**Obligor**" means any party from time to time to any of the Finance Documents (other than the Bank and the Custodian), which has not been released from all its obligations thereunder;

"**Original Financial Statements**" means, in relation to the Applicant, the audited financial statements in a form consistent with GAAP for its financial year ended 31 December 2013;

"**Outstanding Indebtedness**" means the aggregate of the maximum amounts for which the Bank is or may be liable, actually or contingently, under all Letters of Credit and all other sums of money whatsoever from time to time due or owing, actually or contingently, to the Bank under or pursuant to the Finance Documents and with respect to a particular Letter of Credit "**Outstanding Indebtedness with respect to that Letter of Credit**" or any similar phrase shall be construed accordingly;

"**Party**" means a party to this Agreement;

"**Person**" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity;

"**Pledge and Security Agreement**" means the first priority pledge and security agreement to be made in relation to the Collateral Account between the Applicant and the Bank, in the agreed form;

"**Pledgors**" means the Applicant and, following an appointment of an Additional Pledgor in accordance with the provisions of Clause 18, any Additional Pledgor but shall not include any Pledgor which has resigned and has been released in accordance with the provisions of Clause 18;

"**Quotation Day**" means in relation to any period for which an interest rate is to be determined, the day falling 2 Banking Days before the first day of that period;

"**Regulated Insurance Company**" means any Subsidiary of an Obligor, whether now owned or hereafter acquired, that is authorised or admitted to carry on or transact Insurance Business in any jurisdiction (foreign or domestic) and is regulated by any Applicable Insurance Regulatory Authority;

Relevant Jurisdiction" means:

(a) the jurisdiction of incorporation of each Obligor; and

(b) the jurisdiction where any asset subject to or intended to be subject to the Transaction Security is situated;

"**S&P**" means Standard & Poor's Financial Services LLC, a division of The McGraw-Hill Companies, Inc. or any successor to its rating business;

"**Sanctions**" means any sanctions, embargoes, freezing provisions, prohibitions, regulations or other restrictions relating to trading, doing business, investment, exporting, financing or making assets available (or other activities similar to or connected with any of the foregoing) by which any Obligor is bound or to which it is subject;

"**Sanctioned Person**" means any Person listed in any applicable Sanctions related list of designated persons;

"**Screen Rate**" means, for any period, the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) for Dollars for the relevant period displayed on pages LIBOR01 or LIBOR02 of the Reuters screen (or any replacement Reuters page which displays that rate) or on the appropriate page of such other information service which publishes that rate from time to time in place of Reuters. If such page or service ceases to be available, the Bank may specify another page or service displaying the relevant rate after consultation with the Applicant;

"**Security Interest**" means with respect to any asset, any mortgage, deed of trust, pledge, lien, security interest, charge or other encumbrance or security arrangement of any nature whatsoever, including but not limited to any conditional sale or title retention arrangement, and any assignment, deposit arrangement or lease intended as, or having the effect of, security;

"**Security Period**" means the period from the date of this Agreement until the discharge of the security (if any) created by the Finance Documents by final and irrevocable repayment or payment in full of the Outstanding Indebtedness or its extinguishment by expiry or cancellation of all the Letters of Credit;

"**Solvent**" means, with respect to any person on a particular date, that on such date:

(a) the fair value of its assets exceeds the amount of its liabilities (in each case, as would be reflected on a balance sheet prepared in accordance with its accounting principles from time to time); and

(b) such person has not incurred debts beyond their ability to pay such debts as they mature (taking into account the timing and amounts of cash to be received by such person, and of amounts to be payable on or in respect of debt of such person);

"**Specified Transaction Agreement**" means any agreement, contract or documentation with respect to the following types of transactions: cash pooling arrangements, rate swap transactions, swap options, basis swaps, asset swaps, forward rate transactions, commodity swaps, equity or equity index swaps, equity or equity index options, bond options, interest rate options, foreign exchange transactions, cap transactions, floor transactions, collar transactions, current swap transactions, cross-currency rate swap transactions, currency options, credit protection transactions, credit swaps, credit default swaps, credit default options, total return swaps, credit spread transactions, repurchase transactions, reverse repurchase transactions, buy/sell-back transactions, securities lending or borrowing transactions, weather index transaction or forward purchase or sale of a security, commodity or other financial instrument or interest, and transactions on any commodity futures or other exchanges, markets and their associated clearing houses (including any option with respect ot any of these transactions);

"**Stable Value Instrument"** means any insurance, derivative or similar financial contract or instrument designed to mitigate the volatility of returns during a given period on a specified portfolio of securities held by one party (the "customer") through the commitment of the other party (the "SVI provider") to provide the customer with a credited rate of return on the portfolio, typically determined through an interest-crediting mechanism (and in exchange for which the SVI provider typically receives a fee);

"**Subsidiary**" has the meaning given to such term in section 1159 of the Companies Act 2006;

"**Syndicates**" means any Lloyd's syndicate;

"**Tax**" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any related penalty or interest);

"**Tax Credit**" shall have the meaning given to such term in Clause 6.5.1;

"**Tax Deduction**" means a deduction or withholding (other than a FATCA Deduction) for or on account of Tax from a payment under a Finance Document;

"**Tax Payment**" means a payment made by an Obligor to the Bank in any way relating to a Tax Deduction or under any indemnity given by that Obligor in respect of Tax under any Finance Document;

"**Transaction Security**" means each Security Interest created or expressed to be created in favour of the Bank pursuant to the Finance Documents which create Security Interests;

"**UCC**" means the Uniform Commercial Code, as amended, and as in effect from time to time in the State of New York, except that references to sections of the UCC refer to the section numbers of such sections as of the date of this Agreement;

"**US Tax Obligor**" means the Applicant if:

(a) it is resident for tax purposes in the United States of America; or

(b) some or all of its payments under the Finance Documents are from sources within the United States for US federal income tax purposes;

"**Voting Interests**" of any Person means shares of capital stock issued by a corporation, or equivalent equity interests in any Person, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even if the right so to vote has been suspended by the happening of such contingency;

"**XL Group**" means XL Group plc, a company incorporated in the Republic of Ireland with company registration number 482042 whose registered office is at XL House, 8 St Stephen's Green, Dublin 2, Ireland;

"**XL Re**" means XL Re Ltd, a company organised and existing under the laws of Bermuda with company registration number 21291 whose registered office is at O'Hara House, One Bermudiana Road, Hamilton, HM08, Bermuda.

1.2 **Construction of certain expressions**

The following expressions shall be construed in the following manner:

"**affiliate**" means, in relation to any person, a Subsidiary of that person or a holding company of that person or any other Subsidiary of that holding company;

"**Applicant**", "**Pledgor**" and "**Bank**" include their respective legal personal representatives, administrators, successors and permitted assigns; and

"**holding company**" means, in relation to a person, any other person in respect of which it is a Subsidiary.

1.3 **General interpretation**

In this Agreement:

1.3.1 for the purpose of construing references to a "**syndicate**", unless the context otherwise requires, the several groups of members to which in successive years a particular syndicate number is assigned by Lloyd's shall be treated as the same syndicate notwithstanding that they may not comprise the same members with the same premium income limits;

1.3.2 any document expressed to be "**in the agreed form**" means a document in a form approved by (and for the purposes of identification initialled and/or signed by or on behalf of) the Applicant (or other Obligor) and the Bank or (in the case of any of the Finance Documents where appropriate) a document in the form actually executed by both the relevant Obligor and, if appropriate, the Bank;

1.3.3 unless the context otherwise requires, words in the singular include the plural and vice versa;

1.3.4 references to any document include the same as varied, supplemented or replaced from time to time;

1.3.5 references to any enactment include re-enactments, amendments and extensions thereof;

1.3.6 clause headings are for convenience of reference only and are not to be taken into account in construction;

1.3.7 unless otherwise specified, references to Clauses, Recitals and Schedules are respectively to Clauses of and Recitals and Schedules to this Agreement;

1.3.8 references to periods of "**months**" shall mean a period beginning in one calendar month and ending in the relevant calendar month on the day numerically corresponding to the day of the calendar month in which such period started, provided that (a) if such period started on the last Banking Day in a calendar month, or if there is no such numerically corresponding day, such period shall end on the last Banking Day in the relevant calendar month and (b) if such numerically corresponding day is not a Banking Day, such period shall end on the next following Banking Day in the same calendar month, or if there is no such Banking Day, such period shall end on the preceding Banking Day (and "**month**" and "**monthly**" shall be construed accordingly);

1.3.9 an Event of Default is "**continuing**" if it has not been remedied to the reasonable satisfaction of the Bank or waived.

1.4 **Third party rights**

A person who is not a party to this Agreement may not enforce, or otherwise have the benefit of, any provision of this Agreement under the Contracts (Rights of Third Parties) Act 1999.

2. **THE FACILITY - GENERAL PROVISIONS**

2.1 **Overall maximum limit**

The overall maximum limit of the Facility shall not exceed $150,000,000 and, unless the Bank otherwise agrees in writing, no Letter of Credit shall be issued or amended to increase its face value if such limit has been or would thereby be exceeded.

2.2 **Notice of cancellation**

Any notice of cancellation given by the Applicant pursuant to this Clause 2 shall be irrevocable, in the form of Schedule 3 and shall oblige the Applicant to procure such cancellation on such date.

3. **THE FACILITY - SPECIFIC PROVISIONS**

3.1 **Purpose**

Subject to the provisions of this Agreement, the Bank agrees to issue Letters of Credit on behalf of the Applicant or XL Re which will form part of the FAL of the Applicant or XL Re in respect of the Syndicates only.

3.2 **Currency and amount**

3.2.1 The currency specified in an Application must be Dollars.

3.2.2 The amount of a proposed Letter of Credit as specified in an Application must be an amount which is not more than the maximum available amount of the Facility.

3.3 **Application required**

3.3.1 The Applicant will use its reasonable endeavours to submit an Application in the form of Schedule 2 for all Letters of Credit to be issued under this Facility.

3.3.2 If the Applicant wishes the Bank to issue or extend a Letter of Credit, it must make an Application and give it to the Bank not later than 10:00 a.m. London time 3 Banking Days (or such lower number of Banking Days as the Bank may agree) before the proposed Issuance Date. Each Application shall:

(a) be effective on receipt by the Bank;

(b) constitute a representation and warranty in the terms of Clause 12; and

(c) be irrevocable.

3.4 **Condition of effectiveness of Applications**

No Application made pursuant to this Clause 3 shall be considered effective until all the applicable conditions precedent set out in Clause 10 have been satisfied.

3.5 **Issuance of Letters of Credit**

3.5.1 Subject to the provisions of this Agreement and, in particular, but without limitation, Clause 2.1, the Bank will issue each Letter of Credit on the applicable Issuance Date in accordance with the Application made by the Applicant. The Bank will only be obliged to issue the Letter of Credit if on the Application Date and proposed Issuance Date the representations and warranties in Clause 12 of this Agreement are true in all material respects.

3.5.2 If the conditions set out in this Agreement have been met, the Bank shall confirm satisfaction of such conditions and arrange for the issue or amendment of any Letter of Credit by:

(a) completing the Commencement Date (as defined therein) and the Final Expiration Date (as defined therein) of such Letter of Credit;

(b) (in the case of an amendment increasing the amount thereof) amending such Letter of Credit in such manner as Lloyd's may agree; and

(c) executing such Letter of Credit and following such execution delivering such Letter of Credit to Lloyd's on the Issuance Date.

3.6 **Changes to issued Letters of Credit**

Subject to (i) there being no Event of Default then continuing, in the case of Clauses 3.6.3 and 3.6.4 only and (ii) compliance at all times with the provisions of Clause 2.1, the Applicant may request the Bank to:

3.6.1 cancel an issued Letter of Credit by way of an application in the form of Schedule 3or

3.6.2 decrease an issued Letter of Credit by way of an application in the form of Schedule 4; or

3.6.3 increase an issued Letter of Credit by way of an application in the form of Schedule 5; or

3.6.4 extend an issued Letter of Credit by way of an application in the form of Schedule 6

by giving 5 Banking Days (or such lower number of Banking Days as the Bank may agree) written notice to the Bank and provided that such notice has been served, (i) such increase shall take effect on the date of issue of such increase or any other stated effective date and (ii) such cancellation, decrease or extension shall take effect on the date on which Lloyd's confirms in writing to the Bank that it agrees to such cancellation, decrease or extension, or in the case of cancellation, on the expiry of the Bank's notice of termination (if earlier). The Bank will do everything the Applicant reasonably requests to effect the increase, cancellation, decrease or extension of the issued Letter of Credit.

3.7 **Collateral cover**

3.7.1 From the first Issuance Date, collateral cover shall be provided by the Pledgors in the form of Investment Collateral in an amount so that the Borrowing Base shall be equal to not less than 100% of the aggregate face amount of all issued Letters of Credit. Such Investment Collateral shall be provided by the Pledgors in the form of collateral held in the Collateral Account and pledged in favour of the Bank pursuant to the Pledge and Security Agreement.

3.7.2 The Borrowing Base may be calculated by the Bank, as often as it reasonably deems necessary, by reference to the definitions of "Market Value" and "Adjusted Market Value" set out herein, and any information that the Bank reasonably deems appropriate (including, but not limited to, the most recent Borrowing Base Certificate or any valuation requested pursuant to Clause 13.3.2), but Investment Collateral shall only be valued if and to the extent that the Bank has a Security Interest over it.

3.7.3 Provided always that:

(a) the Borrowing Base equals or exceeds 100% of the aggregate of the face amounts of all issued Letters of Credit and is secured in accordance with Clause 11;

(b) there is no Event of Default then continuing; and

(c) the requirements of Clause 3.7.6 are complied with,

a Pledgor may (i) transfer, sell, exchange, settle, withdraw, redeem or invest their Investment Collateral from the relevant Collateral Account, (ii) substitute Investment Collateral for any other form of Investment Collateral, (iii) procure the transfer of collateral to Lloyd's as FAL to reduce the amount of any Letter of Credit or (iv) cause any cash on a Collateral Account of a Pledgor to be applied towards payment of the Outstanding Indebtedness.

3.7.4 If at any time Investment Collateral is not held in the Collateral Account in the amounts prescribed in Clause 3.7.1 and secured in accordance with Clause 11, then the Applicant shall within 5 Banking Days after receipt of written notice from the Bank procure the provision of additional collateral cover in the form of Investment Collateral in an amount necessary to satisfy such deficiency.

3.7.5 If at any time the amount of the Borrowing Base exceeds that required by Clause 3.7.1 or any other applicable provision of this Agreement, any Pledgor may, by instruction to the Custodian, procure that Investment Collateral is transferred out of the relevant Collateral Account and into the absolute beneficial ownership of that Pledgor, free from any Security Interest in favour of the Bank, provided that the Borrowing Base after such transfer shall be no less than that required under those provisions.

3.7.6 No more than 25% of the Investment Collateral may take the form of Collateral Type 5 and no more than 10% of the Investment Collateral may take the form of Collateral Type 5 issued by the same issuer.

3.8 Adjusted Market Value of Investment Collateral not denominated in Dollars

Where any part of the Investment Collateral is denominated in a currency (the "**Relevant Currency**") other than Dollars, that amount shall be notionally converted into Dollars at the Bank's then prevailing spot rate of exchange for obtaining Dollars with the Relevant Currency and the notional amount of Dollars following such conversion (the "**Unadjusted Dollar Amount**") shall then be discounted by the Relevant Percentage as defined below.

The Unadjusted Dollar Amount, as so discounted by the Relevant Percentage applicable to it, will be the Adjusted Market Value of the relevant Investment Collateral.

For the purposes of this Agreement, the "**Relevant Percentage**" means:

3.8.1 10%, where the relevant Investment Collateral is denominated in Euro or English Pounds Sterling;

3.8.2 15%, where the relevant Investment Collateral is denominated in Swiss Francs, Canadian dollars or Japanese yen; or

3.8.3 25%, where the relevant Investment Collateral is denominated in any currency other than Dollar or any of the currencies mentioned in Clauses 3.8.1 and 3.8.2.

3.9 Change of Custodian

Where the Applicant requests to change the Custodian, the Bank shall act reasonably in negotiating any Security Documents to replace the Pledge and Security Agreement and the Control Agreement, provided that such replacement documents shall (to the extent acceptable to the new custodian) be on substantially the same terms as the Pledge and Security Agreement and the Control Agreement and provided that all costs properly incurred in relation to such change of Custodian shall be borne by the Applicant.

4. CONDITIONS APPLICABLE TO LETTERS OF CREDIT

4.1 Terms of Letters of Credit

Each Letter of Credit shall be in such terms as are permitted by Lloyd's for letters of credit constituting FAL.

4.2 Authority to Bank to pay

The Bank is hereby authorised, without any further reference to or further authority from the Applicant, to pay or accept for the account of the Applicant all drafts, demands or other instruments whatsoever (each a "**draft**") drawn or made or purporting to be drawn or made under any Letter of Credit provided that such authorisation shall be without prejudice to the obligation of the Bank to perform its duties in accordance with the International Standby Practices – ISP98, 1998 publication - International Chamber of Commerce Publication No. 590 (or to any subsequent revision to which a Letter of Credit may be expressed to be subject) and to the conditions of the relevant Letter of Credit, subject to Clause 4.5. The Bank shall give notice to the Applicant of such payment or acceptance within 3 Business Days of receiving the demand.

4.3 **Reimbursement**

If the Bank pays any amount under a Letter of Credit then the Applicant shall, within 5 Banking Days of a demand by the Bank, make payment to the Bank of the amount to be paid by the Bank provided always that:

4.3.1 subject to paragraph 4.3.2, the Applicant may direct the Bank to apply any Investment Collateral in settlement of such reimbursement obligation or payment obligation; but

4.3.2 the Bank will not be obliged to use any Investment Collateral in settlement of such reimbursement obligation except to the extent that the Borrowing Base exceeds 100% of the face amount of all the Letters of Credit issued at the time less the amount paid by the Bank under the Letter of Credit being drawn.

4.4 **Applicant's indemnity**

Without limiting Clause 4.3, the Applicant shall indemnify the Bank and hold it harmless from and against all claims, demands, actions, losses, liabilities, damages and all costs, expenses, fees, commissions and charges and other sums of whatsoever nature (including legal fees and expenses) properly incurred which it may incur or pay in acting as the Bank for any Letter of Credit (otherwise than by the Bank's fraud, misconduct or negligence), including but not limited to any liability or sum as aforesaid which it may incur or pay to any confirming, advising or negotiating bank and shall within 5 Banking Days provide the Bank with funds to meet any liability or pay any sum as aforesaid.

4.5 **Exclusion of Bank's liability**

4.5.1 Each Letter of Credit shall be opened entirely at the risk of the Applicant.

4.5.2 Any action taken or omitted by the Bank or any of its correspondents or agents under or in connection with any Letter of Credit, if taken or omitted in good faith (and in the absence of fraud, negligence or wilful misconduct), shall be binding on the Applicant and shall not place the Bank under any liability to the Applicant.

4.5.3 Without prejudice to the provisions of Clause 4.5.2, in the event of any uncertainty or ambiguity in any instructions given to the Bank, the Bank may, at its discretion, take no action until the Applicant clarifies such instructions to the Bank's satisfaction. The Bank shall not be held liable for any losses incurred by the Applicant as a result of any action or inaction which the Bank takes in the light of such instructions.

4.6 **Provision of information**

The Applicant undertakes to inform and keep the Bank informed of any material fact or circumstance which will or is likely to give rise to a draft being drawn or made under any Letter of Credit as soon as reasonably practicable upon its becoming aware of such material fact or circumstance.

4.7 **Propriety of demand**

The Bank shall be entitled to rely without further enquiry on any demand, claim, document or other communication believed by it in good faith to be genuine and correct and to have been signed or otherwise executed or made by the proper person and otherwise to be in conformity with a Letter of Credit.

4.8 **Incorporation of ISP 1998 and conditions of Application**

The Applicant agrees that the International Standby Practices – ISP98, 1998 publication - International Chamber of Commerce Publication No. 590 and the conditions of the relevant Application shall apply to each Letter of Credit. In the case of any conflict between the provisions of this Agreement on the one hand and that publication and/or of the Application on the other, the provisions of this Agreement shall prevail.

4.9 **Payments and interest**

The Applicant shall pay to the Bank on demand from time to time all amounts payable by the Applicant under Clauses 4.3 and 4.4 together with interest at the Default Rate on each such amount from the date of the Bank's payment until the date of the Applicant's payment to the Bank, before or after any relevant judgment.

4.10 **Termination of Funds at Lloyd's Letters of Credit**

The Bank may, in its absolute discretion, at any time up to and including 31 July 2019, serve notice on Lloyd's giving notice of termination of a Letter of Credit, in accordance with the terms of the Letter of Credit.

5. **PAYMENTS**

5.1 **Place of payment**

Unless otherwise specified by the Bank or otherwise provided in this Agreement or any of the other Finance Documents, all moneys to be paid by the Applicant to the Bank under this Agreement and any of the other Finance Documents shall be paid to the Bank:

5.1.1 by not later than 2:00 p.m. (London time);

5.1.2 for value on their due date in Dollars in funds which are for same day settlement in the London Interbank Payments System (or in such other funds as shall for the time being be customary for settlement of international banking transactions in Dollars); and

5.1.3 to such account of the Bank as the Bank shall notify the Applicant in writing from time to time.

5.2 **Non Banking Days**

All payments due shall be made on a Banking Day. If the due date for payment falls on a day which is not a Banking Day:

5.2.1 the payment or payments due shall be made on the first Banking Day thereafter, provided this falls in the same calendar month; and

5.2.2 if it does not, payment shall fall due and be made on the immediately preceding Banking Day.

5.3 **Accrual of interest and periodic payments**

All payments of commission, interest and other payments of an annual or periodic nature to be made by the Applicant shall accrue from day to day and be calculated on the basis of the actual number of days elapsed and a 360 day year.

6. **NO SET-OFF, COUNTERCLAIM OR TAX DEDUCTION**

6.1 **No set-off, counterclaim or deduction**

All payments to be made by the Applicant or any other Obligor under this Agreement and any of the other Finance Documents shall be made without set-off, counterclaim or deduction.

6.2 **Tax gross-up**

6.2.1 Each Obligor must make all payments to be made by it under the Finance Documents without any Tax Deduction, unless a Tax Deduction is required by law.

6.2.2 If an Obligor is aware that an Obligor must make a Tax Deduction (or that there is a change in the rate or the basis of a Tax Deduction), it must promptly notify the Bank.

6.2.3 If a Tax Deduction is required by law to be made by an Obligor or the Bank, the amount of the payment due from the Obligor will be increased to an amount which (after making the Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.

6.2.4 If an Obligor is required to make a Tax Deduction or a payment required in connection with a Tax Deduction, the Obligor making that Tax Deduction or payment shall deliver to the Bank evidence satisfactory to the Bank (acting reasonably) that the Tax Deduction has been made or (as applicable) the appropriate payment has been paid to the relevant taxing authority.

6.2.5 The Applicant and the Bank may make any FATCA Deduction it is required to make by FATCA, and any payment required in connection with that FATCA Deduction, and neither the Applicant nor the Bank shall be required to increase any payment in respect of which it makes such a FATCA Deduction or otherwise compensate the recipient of the payment for that FATCA Deduction.

6.2.6 The Applicant and the Bank shall promptly, upon becoming aware that it must make a FATCA Deduction (or that there is any change in the rate or the basis of such FATCA Deduction) notify the other Party to whom it is making the payment.

6.3 **Tax indemnity**

6.3.1 Except as provided below, the Applicant must indemnify the Bank against any loss or liability which the Bank determines has been suffered (directly or indirectly) or reasonably determines will be suffered (directly or indirectly) by the Bank for or on account of Tax in relation to a payment received or receivable (or any payment deemed to be received or receivable) under a Finance Document.

6.3.2 Clause 6.3.1 above does not apply to:

(a) any Tax assessed on the Bank under the laws of the jurisdiction in which:

(i) the Bank is incorporated or, if different, the jurisdiction (or jurisdictions) in which the Bank is treated as resident for tax purposes; or

(ii) the Bank's facility office is located in respect of amounts received or receivable in that jurisdiction,

if that Tax is imposed on or calculated by reference to the net income received or receivable by the Bank. However, any payment deemed to be received or receivable, including any amount treated as income but not actually received by the Bank, such as a Tax Deduction, will not be treated as net income received or receivable for this purpose;

(b) the extent the loss or liability is compensated for by an increased payment under Clause 6.2; and

(c) the extent the loss or liability relates to a FATCA Deduction required to be made by a Party.

6.4 **FATCA Information**

6.4.1 Subject to Clause 6.4.3 below, each Party shall, within 10 Banking Days of a reasonable request by the other Party:

(a) confirm to that other Party whether it is:

(i) a FATCA Exempt Party; or

(ii) not a FATCA Exempt Party; and

(b) supply to the other Party such forms, documentation and other information relating to its status under FATCA as the other Party reasonably requests for the purposes of the other Party's compliance with FATCA;

(c) supply to that other Party such forms, documentation and other information relating to its status as that other Party reasonably requests for the purposes of that other Party's compliance with any other law, regulation or exchange of information regime.

6.4.2 If a Party confirms to the other Party pursuant to Clause 6.4.1(a)(i) above that it is a FATCA Exempt Party and it subsequently becomes aware that it is not, or has ceased to be a FATCA Exempt Party, that Party shall notify that other Party reasonably promptly.

6.4.3 Clause 6.4.1 above shall not oblige any Party to do anything which would or might in its reasonable opinion constitute a breach of:

(a) any law or regulation;

(b) any fiduciary duty; or

(c) any duty of confidentiality.

6.4.4 If a Party fails to confirm whether or not it is a FATCA Exempt Party or to supply forms, documentation or other information requested in accordance with Clause 6.4.1(a) or (b) above (including, for the avoidance of doubt, where Clause 6.4.3 above applies), then such Party shall be treated for the purposes of the Finance Documents (and payments under them) as if it is not a FATCA Exempt Party until such time as the Party in question provides the requested confirmation, forms, documentation or other information.

6.4.5 If the Applicant becomes a US Tax Obligor, it shall as soon as reasonably practicable inform the Bank of the same and provide the Bank with a Form W-8 or Form W-9 (or any successor form) (as applicable) or any other forms of documentation which the Bank may reasonably require to certify or establish the Applicant's status under FATCA.

6.4.6 If the Applicant is a US Tax Obligor, or where the Bank reasonably believes that its obligations under FATCA or any other applicable law or regulation require it, the Bank shall, within 10 Banking Days of the Applicant's request supply to the Applicant:

(a) a withholding certificate on Form W-8 or Form W-9 (or any successor or relevant form) (as applicable); or

(b) any withholding statement and other documentation, authorisations and waivers as may be required to certify or establish the status of the Bank under FATCA or that other law or regulation.

6.4.7 If any withholding certificate, withholding statement, document, authorisation or waiver provided pursuant to Clause 6.4.6 is or becomes materially inaccurate or incomplete, the Bank shall promptly update it and provide such updated withholding certificate, withholding statement, document, authorisation or waiver to the Applicant unless it is unlawful for the Bank to do so (in which case the Bank shall promptly notify the Applicant).

6.4.8 The Applicant may rely on any withholding certificate, withholding statement, document, authorisation or waiver it receives from the Bank pursuant to Clause 6.4.6 or 6.4.7 without further verification.

6.5 **Tax Credit**

If an Obligor makes a Tax Payment and the Bank determines that:

6.5.1 it is entitled to receive or be granted a credit against Tax payable by it (a "**Tax Credit**") attributable to that Tax Payment; and

6.5.2 it has used and retained that Tax Credit,

the Bank must pay an amount to the Obligor which the Bank determines will leave it (after that payment) in the same after-tax position as it would have been if the Tax Payment had not been made by the Obligor.

7. ACCOUNTS OF THE BANK

7.1 Bank to open accounts

The Bank will open and maintain on its books accounts showing the amounts owing to the Bank from the Applicant and the other Obligors and the amounts of all payments falling due and received by the Bank.

7.2 Evidence of obligations

The obligation of the Applicant in respect of a Letter of Credit to repay the Outstanding Indebtedness in respect of that Letter of Credit or any part thereof, to pay interest thereon (if applicable) and to pay all other sums due under the Finance Documents shall be conclusively evidenced (in the absence of fraud or manifest error) by the entries from time to time made in the accounts opened and maintained under this Clause 7.

8. APPLICATION OF MONEYS

8.1 Order of application

Except as otherwise specifically provided in this Agreement or in any other of the Finance Documents, all moneys received or recovered by the Bank will, after discharging the cost (if any) incurred in collecting such moneys, be applied as follows:

FIRST: in or towards payment of all moneys expended or liabilities incurred by the Bank in respect of expenses, fees or charges relating to the preparation, completion and registration (if any) of the Finance Documents or in respect of the protection, maintenance or enforcement of any security which they create;

SECONDLY: in or towards the satisfaction of any amounts forming the balance of the Outstanding Indebtedness which are then due and payable, whether by reason of payment demanded or otherwise;

THIRDLY: on or at any time after the happening of an Event of Default which is continuing, in retention of an amount equal to any future or contingent under Clauses 6 and 15 or any other provision of this Agreement or the other Finance Documents which the Bank has been able to identify to the Applicant, upon those amounts becoming due and payable or in or towards satisfaction of them in accordance with the relevant provisions of Clause 8.1; and

FOURTHLY: the balance (if any) shall be paid to the Applicant or other person entitled.

8.2 Waiver of right of appropriation

The Applicant hereby irrevocably waives any rights of appropriation to which it may be entitled.

9. COLLATERAL ACCOUNT

9.1 Opening of the Collateral Account

The Applicant has established with the Custodian, and throughout the Security Period shall maintain, the Collateral Account.

9.2 Obligations with respect to the Collateral Account

The Applicant shall, at the request of the Bank, enter into the Pledge and Security Agreement, the Control Agreement and, to the extent reasonably required, any other notices, acknowledgments and other ancillary documents thereto.

9.3 Security over Collateral Account and right to withhold

Notwithstanding anything to the contrary contained in this Agreement, so long as the Applicant remains under any liability (whether actual or contingent) in respect of the Outstanding Indebtedness, the Collateral Account shall be subject to a continuing security in favour of the Bank pursuant to the Pledge and Security Agreement.

9.4 Appropriation after default

On or at any time after the happening of an Event of Default which is continuing, the Bank shall be entitled (without notice to the Applicant), subject to Clause 3.7.4 and the terms of the Pledge and Security Agreement, to direct transfer of, appropriate or otherwise take possession of, to the extent of the Outstanding Indebtedness, all or any of the Investment Collateral standing to the credit of the Collateral Account and/or require that any Investment Collateral be converted to Cash and shall apply the same in discharge or satisfaction of the Outstanding Indebtedness in accordance with Clause 8.

9.5 Bank and other charges

All bank, exchange, telegraph and other charges in connection with the inward and outward remittance of moneys to and from the Collateral Account shall be for the account of the Applicant.

9.6 Continuing obligations of the Applicant

Nothing in this Clause 9, whether express or implied, shall relieve the Applicant of its obligations to reimburse and indemnify the Bank in accordance with Clauses 4.3 and 4.4 and to pay interest on any relevant amounts and to pay all other sums from time to time due, owing or payable hereunder and under any of the other Finance Documents.

10. CONDITIONS PRECEDENT

10.1 Conditions to be satisfied prior to issuance of Letters of Credit

It shall be a condition of the effectiveness of each Application and the issuance or amendment of any Letter of Credit that the following conditions precedent are satisfied:

10.1. the Bank has received a duly completed Application in respect of that Letter of Credit;

10.1.2 the Bank is satisfied, in the case of each Letter of Credit to be issued on the first Issuance Date, that on or before issuance of each such Letter of Credit all the obligations of the Bank as sub-participant under or in relation to the Existing Facility will be released;

10.1.3 the Bank (or its legal advisers) has received the documents and evidence described in Schedule 1 and Clause 11 in form and substance satisfactory to it;

10.1.4 the Bank has received evidence (either by way of a statement from the Custodian or such other form as the Bank may require) that the Borrowing Base is equal to at least 100% of the aggregate face amount of that Letter of Credit and all other Letters of Credit then in issue;

10.1.5 the representations and warranties contained in Clause 12 are true and correct at the Issuance Date of that Letter of Credit;

10.1.6 none of the circumstances specified in Clause 17 is subsisting; and

10.1.7 no Event of Default has occurred or will arise as a result of the issuance or amendment (as the case may be) of that Letter of Credit.

10.2 **Waiver of conditions precedent**

If the Bank in its absolute discretion issues any Letter of Credit notwithstanding that one or more of the relevant conditions precedent specified above remains unsatisfied on the Issuance Date of that Letter of Credit, then the Applicant shall procure the satisfaction of such condition or conditions precedent within 5 Banking Days thereafter or such longer period as the Bank may, in its discretion, agree in writing.

11. **SECURITY**

As security for the payment of the Outstanding Indebtedness, the Applicant will on or before the first Issuance Date execute and deliver (or, as the case may be, procure the execution and delivery) to the Bank, the following Finance Documents:

11.1.1 the Control Agreement; and

11.1.2 the Pledge and Security Agreement.

12. **REPRESENTATIONS AND WARRANTIES**

12.1 **Date of representations and warranties**

The Applicant makes the representations and warranties set out in this Clause 12 to the Bank on the date of this Agreement.

12.2 **Status**

12.2.1 It is a corporation, duly incorporated and validly existing and in good standing under the law of Bermuda.

12.2.2 It has the power to own its assets and carry on its business as it is being conducted.

12.3 **Binding obligations**

Subject to the Legal Reservations, the obligations expressed to be assumed by the Applicant in the Finance Documents are, subject to any general principles of law as at the date of this Agreement limiting its obligations, which are specifically referred to in any legal opinion referred to in paragraph 14 of Schedule 1, legal, valid, binding and enforceable obligations.

12.4 **Licences and approvals in force**

All licences, authorisations, approvals and consents necessary for the entry into, performance, validity, enforceability or admissibility in evidence of this Agreement and the other Finance Documents have been obtained and are in full force and effect and there has been no breach of any condition or restriction imposed in this respect.

12.5 **Non-conflict with other obligations**

Subject to the Legal Reservations, the entry into and performance by the Applicant of, and the transactions contemplated by, the Finance Documents do not conflict with:

12.5.1 any law or regulation applicable to it;

12.5.2 its constitutional documents; or

12.5.3 any agreement or instrument binding upon it or any of its assets.

12.6 **Power and authority**

The Applicant has the power to enter into, perform and deliver, and has taken all necessary action to authorise its entry into, performance and delivery of, the Finance Documents to which it is a party and the transactions contemplated by those Finance Documents.

12.7 **Governing law and enforcement**

Subject to the Legal Reservations and, in the case of the Applicant, to the provisions of The Judgments (Reciprocal Enforcement) Act 1958 (where applicable):

12.7.1 the choice of governing law of each of the Finance Documents will be recognised and enforced in each Relevant Jurisdiction; and

12.7.2 any judgment obtained in England in relation to a Finance Document will be recognised and enforced in each Relevant Jurisdiction.

12.8 **Deduction of Tax**

It is not required to make any deduction for or on account of Tax from any payment it may make under any Finance Document.

12.9 **No filing or stamp taxes**

Under the law of each Relevant Jurisdiction (other than New York and Bermuda) it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Finance Documents or the transactions contemplated by the Finance Documents.

12.10 **No default**

12.10.1 No Event of Default has occurred or is continuing from the issuance of any Letter of Credit.

12.10.2 No other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on it or to which its assets are subject which might have a Material Adverse Effect.

12.11 **Financial statements**

12.11.1 The Original Financial Statements were prepared in accordance with the relevant applicable accounting principles (as the case may be) consistently applied.

12.11.2 The Original Financial Statements fairly represent its financial condition and operations during the relevant financial year.

12.12 **No Material Adverse Effect**

Except as disclosed in XL Group's filings made with the US Securities & Exchange Commission prior to the date of this Agreement, since 31 December 2013, there has been no Material Adverse Effect.

12.13 **Validity and admissibility in evidence**

All authorisations to be obtained or acts, conditions and things required to be done, fulfilled and performed in order:

12.13.1 to enable the Applicant to enter into, exercise its rights under and perform and comply with the obligations expressed to be assumed by it in the Finance Documents;

12.13.2 to ensure that the obligations expressed to be assumed by the Applicant in the Finance Documents are legal, valid, binding and enforceable; and

12.13.3 to make the Finance Documents admissible in evidence in each Relevant Jurisdiction,

have been obtained and are in full force and effect or have been done, fulfilled and performed.

12.14 **Claims pari passu**

Subject to the Legal Reservations:

12.14.1 the Applicant has sufficient interest in all of its Investment Collateral in which a Security Interest is purported to be created pursuant to the Pledge and Security Agreement for such Security Interest to attach (subject, in each case, to no Security Interest whatsoever except any Security Interest created by the Pledge and Security Agreement, the Control Agreement, the Custody Agreement or arising by operation of law); and

12.14.2 each of the Finance Documents creates (or, once entered into, will create) in favour of the Bank the Transaction Security which it is expressed to create and, after all appropriate financing statements are filed and the Control Agreement executed, will create a valid first priority Security Interest over the Investment Collateral and where appropriate such Security Interest is entitled to all rights, priorities and benefits afforded by the UCC.

12.15 **No winding-up**

The Applicant has not taken any corporate action nor have any other steps been taken or legal proceedings been started or (to the best of its knowledge and belief) threatened against the Applicant for its winding-up, dissolution, administration or re-organisation (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of any or all of its assets or revenues, other than in respect of internal reorganisations, amalgamations mergers and/or consolidations with other companies in the Group provided that the Applicant is the surviving entity pursuant to its domiciliary law, or in respect of any other reorganisation, amalgamation, merger and/or consolidation to which the Bank has given its prior written consent (such consent not to be unreasonably withheld or delayed).

12.16 **No material defaults**

Neither the Applicant is in breach of or in default under any agreement to which it is a party or which is binding on it or any of its assets to an extent or in a manner which would reasonably be expected to have a Material Adverse Effect.

12.17 **No misleading information**

All written factual information supplied to the Bank by the Applicant in connection with this Agreement is true, complete and accurate in all material respects as at the date it was given (or as at the date at which it is stated) and is not misleading in any material respect.

12.18 **Compliance with statutes and agreements**

12.18.1The Applicant is in compliance with all applicable statutes, regulations, rules and orders of, and all applicable restrictions imposed by, and have filed or otherwise provided all material reports, data, registrations, filings, applications and other information required to be filed with or otherwise provided (or will do so within the period required by law) to, all governmental bodies, domestic or foreign, in respect of the conduct of their business and the ownership of their property, except where the failure to comply or file or otherwise provide, either individually or in the aggregate, has not had, and would not reasonably be expected to have, a Material Adverse Effect.

12.18.2All regulatory approvals required by the Applicant are in full force and effect on the date hereof, except where the failure of such approvals to be in full force and effect, either individually or in the aggregate, has not had, and would not reasonably be expected to have, a Material Adverse Effect.

12.18.3The Applicant is in compliance with all indentures, agreements and other instruments binding upon it or its property, except where the failure to do so, either individually or in the aggregate, has not had, and would not reasonably be expected to have, a Material Adverse Effect.

12.19 **Good title to assets**

The Applicant has good, valid and marketable title to, or valid leases or licences of, and all appropriate authorisations to use, the assets necessary to carry on its business as presently conducted.

12.20 **Legal and beneficial owner**

Subject to any applicable custody agreement or custody arrangements with the Custodian (or any sub-custodian), the Applicant is the legal owner and beneficial owner of the assets subject to the Transaction Security.

12.21 **Insurance business**

12.21.1 The Applicant carries on insurance or reinsurance business in connection with applicable laws and all filings and approvals have been made or given except where failure to obtain such approval or make such a filing without it being objected to, would not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect.

12.21.2 In respect of any application in respect of a Letter of Credit for the benefit of XL Re, XL Re carries on insurance or reinsurance business in connection with applicable laws and all material filings and approvals have been made or given except where failure to do so would not reasonably be expected to have a material adverse effect on XL Re's ability to carry out its business.

12.22 **No Section 32 direction**

The Applicant has not received any direction or other notification from the Bermuda Monetary Authority pursuant to Section 32 of the Insurance Act, 1978 of Bermuda.

12.23 **Solvency**

Each of the Applicant and XL Re, taken individually is in each case, Solvent.

12.24 **Sanctions**

To the Applicant's knowledge (having made due and careful enquiry) each Obligor and XL Re is in compliance with applicable Sanctions in all material respects and neither the Applicant, any other Obligor nor XL Re is a Sanctioned Person.

13. **UNDERTAKINGS**

13.1 **Duration of undertakings**

The undertakings contained in this Clause 13 shall remain in force from the date of this Agreement to the end of the Security Period.

13.2 **General undertakings**

The Applicant shall:

13.2.1 perform and observe the several covenants and obligations imposed upon it under the Finance Documents;

13.2.2 inform the Bank promptly upon becoming aware of any litigation, arbitration, tax claim or administrative proceeding instituted or threatened and of any other occurrence of which it becomes aware which may materially adversely affect:

(a) its ability, or the ability of any other Obligor, to perform its obligations under the Finance Documents;

(b) the financial condition, business, assets or prospects of the Applicant; or

(c) the security constituted by the Finance Documents;

13.2.3 maintain its corporate existence as a corporation duly organised, validly existing and in good standing in its place of incorporation other than as a consequence of a merger, amalgamation, consolidation or similar reorganisation with other companies in the Group provided that the Applicant is the surviving entity, pursuant to its domiciliary law, or other than as a consequence of any other reorganisation, amalgamation, merger and/or consolidation to which the Bank has given its prior written consent, such consent not to be unreasonably withheld or delayed);

13.2.4 obtain and maintain in force, and promptly furnish certified copies to the Bank of, all licences, authorisations, approvals and consents, and do all other acts and things, which may from time to time be necessary for the continued due performance of its obligations under the Finance Documents or which may be required for the validity, enforceability or admissibility in evidence of the Finance Documents;

13.2.5 ensure that its obligations under the Finance Documents rank at least pari passu with all its other present, future and/or contingent unsecured and unsubordinated obligations from time to time outstanding save those which are preferred solely by any bankruptcy, insolvency, liquidation or other similar laws;

13.2.6 promptly after becoming aware of (i) an Event of Default or (ii) any event which would with the expiry of any remedy period contained in the Finance Documents become an Event of Default, notify the Bank of such event and of the steps (if any) which are being taken to remedy it;

13.2.7 pay all taxes, assessments and other governmental charges as they fall due, except to the extent that failure to do so would not reasonably be expected to have a Material Adverse Effect;

13.2.8 promptly provide any information in connection with XL Re, any Obligor or any affiliate of any Obligor which is reasonably requested by the Bank pursuant to any "know your customer" or anti-money laundering legislation, regulation or procedures applicable to it from time to time so as to ensure compliance by the Bank, its employees, officers and directors with any such anti-money laundering legislation, regulation or procedures;

13.2.9 promptly upon the request of the Bank use its best efforts to, or procure any other Obligor to, execute, acknowledge, deliver and record and do any and all such further acts and deeds as the Bank may reasonably request from time to time in order to ensure that the obligations of the Applicant under this Agreement are secured by the Control Agreement and the Pledge and Security Agreement; and

13.2.10upon a Change of Control, promptly inform the Bank of such Change of Control and enter into such additional documentation as is reasonably required by the Bank in order to ensure that the rights of the Bank under the Pledge and Security Agreement are in no way prejudiced.

13.3 **The Applicant's financial information**

The Applicant shall provide the Bank:

13.3.1 as soon as available and in any event by 15 May of each year, with its audited financial statements and consolidated balance sheet in a form consistent with GAAP as at the end of such fiscal years and the related consolidated statements of income, changes in shareholders' equity and cash flows for such fiscal year, setting forth in comparative form the consolidated figures for the previous fiscal year and accompanied by a report thereon of any independent public accountants of recognised national standing which report shall state that such financial statements present fairly in all material respects the financial position of the Applicant as at the dates indicated and their results of operations and cash flows for the periods indicated in conformity with their respective accounting principles applied on a basis consistent with prior years (except as otherwise specified in such report; provided any exceptions or qualifications thereto must be acceptable to the Bank) and that the audit by such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards;

13.3.2 upon request of the Bank, a valuation from the Custodian of the Eligible Securities forming the Investment Collateral in the Collateral Account; and

13.3.3 such other information material to the Applicant's obligations under this Agreement as the Bank may reasonably request from time to time.

13.4 **Compliance Certificates**

The Applicant shall, at the time of its delivery of the relevant financial statements provided for in Clauses 13.3.1 and at such other times as the Bank may request, provide the Bank with a certificate executed by an Authorised Officer confirming:

13.4.1 that the Applicant is, as at the date of such certificate, in compliance with its obligations under the Finance Documents and that, so far as it is aware, no Event of Default has occurred, or, if any has occurred, none is continuing; and

13.4.2 that there is no Net Worth Deficiency,

such certificate to be provided substantially in the form of Schedule 8, which certificate shall also set forth the calculations required to establish whether there is a Net Worth Deficiency.

13.5 **Borrowing Base Certificate**

The Applicant shall supply to the Bank, no later than the tenth Banking Day of each calendar month, a Borrowing Base Certificate as of the last day of the immediately preceding month, executed by an Authorised Officer of the Applicant, setting out the amount of its Borrowing Base and attaching an account statement from the Custodian. In the event that any Borrowing Base Certificate reflects a deficiency in Investment Collateral as required pursuant to Clause 3.7, the Applicant shall issue a revised Borrowing Base Certificate reflecting any relevant cure.

13.6 **Books, records and inspections**

The Applicant shall keep proper books of record and account in which full, true and correct entries in conformity with its applicable accounting principles from time to time, as applicable, shall be made of all dealings and transactions in relation to its business and activities.

13.7 **Negative pledge**

The Applicant shall not, and shall procure that no other Obligor shall, except with the prior written consent of the Bank:

13.7.1 permit the creation or existence of any Security Interest in the Investment Collateral whilst they are in the Collateral Account except pursuant to the Finance Documents; or

13.7.2 alter any of the provisions of its articles of incorporation or byelaws or other constitutional documents which, in each case, would have a material adverse effect on the ability of the Applicant or such Obligor to perform any of its obligations under this Agreement or the Finance Documents.

13.8 **Transfer of collateral cover**

Upon occurrence of a Net Worth Deficiency (whether or not subsequently cured) or upon announcement by a Pledgor of its decision to cease writing Insurance Business, the Bank may, upon written notice to that Pledgor, transfer, or require that Pledgor as soon as reasonably practicable after receipt of such written notice to transfer, such Investment Collateral from the relevant Collateral Account to a securities account at the Bank or such other securities account as the Bank may advise, and to execute as soon as reasonably practicable, a deed creating security over such account in such form as the Bank may require.

14. **EVENTS OF DEFAULT**

14.1 **Defaults**

There shall be an Event of Default if any one or more of the following happen:

14.1.1 **Non-payment**

The Applicant or, as the case may be, any other Obligor fails to make any payment due from it under this Agreement on its due date, or within 3 Banking Days of its due date any other amount payable pursuant to any of the other Finance Documents unless in each case such failure to pay is caused by administrative or technical error or a Disruption Event and payment is made within 2 Banking Days of such date, or, in respect of moneys payable on demand (unless otherwise specifically provided), within 2 Banking Days from the date of such demand.

14.1.2 **Collateral**

At any time any of the requirements of Clauses 3.7.1 and 3.7.4 are not satisfied, except where failure to satisfy those requirements is caused by administrative or technical error or a Disruption Event and is remedied within 2 Banking Days of the date of such failure.

14.1.3 **Non-compliance**

The Applicant or any other Obligor does not comply with any other term of the Finance Documents to which it is party not already referred to in this Clause 14.1, unless the non-compliance:

(a) is capable of remedy; and

(b) is remedied within 10 Banking Days of the earlier of (i) the Bank giving notice to the Applicant or such other Obligor or (ii) the Applicant or such other Obligor becoming aware of the failure to comply.

14.1.4 **Representations**

A representation or warranty made by or repeated by an Obligor in any Finance Document is incorrect or misleading in any material respect when made or deemed to be repeated, unless such breach:

(a) is capable of remedy; and

(b) is remedied within 10 Banking Days of the earlier of (i) the Bank giving notice to the Applicant or such other Obligor or (ii) the Applicant or such other Obligor becoming aware of such breach.

14.1.5 **Unlawfulness; security imperilled**

(a) It is or becomes unlawful or illegal for an Obligor to perform any of its obligations under the Finance Documents;

(b) any Finance Document is not effective in accordance with its terms or is alleged by an Obligor to be ineffective in accordance with its terms for any reason;

(c) the Bank shall fail to have, following execution of the Pledge and Security Agreement and the Control Agreement and completion of any registration in respect thereof, a perfected first fixed Security Interest in respect of the Collateral Account;

unless in each case such breach:

(i) is capable of remedy; and

(ii) is remedied within 10 Banking Days of the earlier of (i) the Bank giving notice to the Applicant or such other Obligor or (ii) the Applicant or such other Obligor becoming aware of such breach.

14.1.6 **Cross-default**

Any of the following occurs in respect of any Obligor:

(a) any repayment of principal in respect of, or any payment of interest on, any other obligation for borrowed money in principal amount of $50,000,000 or more, or any payment of any principal amount of $50,000,000 or more in respect of Hedging Obligations, is not paid when due (after the expiry of any applicable grace period); or

(b) it defaults in the performance of any other agreement, term or condition contained in any such agreement (other than Hedging Obligations) under which any such obligation in the principal amount of $50,000,000 or more is created, if the effect of such default is to cause or permit the holders of such obligation (or trustee on behalf of such holder or holders) to cause such obligation to become due prior to its stated maturity or to terminate is commitment under such agreement,

in each case provided that this clause shall not apply to secured Financial Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Financial Indebtedness.

14.1.7 **Insolvency**

Any of the following occurs in respect of any Obligor or XL Re (but in the case of XL Re, only in the event that any Letters of Credit have been issued for the benefit of XL Re and are then outstanding):

(a) it institutes proceedings to be adjudicated a voluntary bankrupt or insolvent, or approving as properly filed a petition seeking its reorganisation under the Companies Act 1981 of Bermuda (as amended) or any other similar applicable law;

(b) it consents to the filing of any such petition or shall consent to the appointment of an examiner, receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or a substantial part of its property, or shall make an assignment for the benefit of creditors, or shall admit in writing ;

(c) its consents to the appointment of an examiner, receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or a substantial part of its property ;

(d) it makes an assignment for the benefit of creditors;

(e) it admits in writing its inability to pay its debts generally as they fall due;

(f) corporate or other action is taken by the Obligor or XL Re in furtherance of one of the above purposes.

14.1.8 **Insolvency proceedings**

Any of the following occurs in respect of any Obligor or XL Re (but in the case of XL Re, only in the event that any Letters of Credit have been issued for the benefit of XL Re and are then outstanding):

(a) a decree or order by a court having jurisdiction in the premises shall have been entered adjudging any Obligor or XL Re a bankrupt or insolvent, or approving as properly filed a petition seeking reorganisation of such Obligor or XL Re under the Companies Act 1981 of Bermuda (as amended) or any similar applicable law, and such decree or order shall have continued undischarged or unstayed for a period of 60 days;

(b) a decree or order of a court having jurisdiction in the premises for the appointment of an examiner, receiver or liquidator or trustee or assignee in bankruptcy or insolvency of any Obligor or XL Re or a substantial part of its property, or for the winding up of its affairs, shall have been entered, and such decrees or order shall have continued undischarged and unstayed for a period of 60 days.

14.1.9 **Creditors' process**

One of more judgments for the payment of money in the aggregate value of in excess of $100,000,000 is rendered against any Obligor or XL Re and the same is not vacated, discharged,

stayed or bonded pending appeal within 90 days of the entry thereof provided that in the case of XL Re, this will only be an Event of Default under this Clause 14.1.9 if there is a Letter of Credit issued to XL Re which is outstanding at the time of the event.

14.1.10 **Repudiation**

An Obligor repudiates a Finance Document or any of the Transaction Security or evidences an intention to repudiate a Finance Document or any of the Transaction Security.

14.2 **Bank's remedies**

Upon the occurrence of an Event of Default and at any time thereafter whilst it is continuing, without prejudice to any of the rights and remedies of the Bank under any of the other Finance Documents or otherwise, the Bank may take any one or more of the following actions:

14.2.1 enter into any agreement or arrangement with Lloyd's which the Bank shall think fit for the cancellation, discharge, release, reduction, compromise and/or return of any or all of the Letters of Credit then outstanding and/or any actual or contingent obligation or liability thereunder provided always that the Applicant shall not be liable to the Bank for any amounts in excess of the Outstanding Indebtedness ; and

14.2.2 take steps to exercise the rights and remedies conferred upon the Bank by the provisions of this Agreement and the other Finance Documents and exercisable on or after the occurrence of an Event of Default including (without limitation) the right to liquidate any non-cash Investment Collateral and convert it into cash where necessary to fund any payment to the Bank in accordance with the Finance Documents.

15. **FEES, EXPENSES, INDEMNITIES AND MITIGATION**

15.1 **L/C commissions**

In respect of any Letter of Credit issued pursuant to this Agreement, the Applicant shall pay to the Bank a commission payable quarterly in arrears at the relevant rate per annum (the "**Commission Rate**") which shall be calculated based on the type of Investment Collateral used as follows:

Investment Collateral Type	**Commission Rate (per cent. per annum)**
Cash	0.375
Collateral Type 1	0.375
Collateral Type 2	0.475
Collateral Type 3	0.475
Collateral Type 4	0.475
Collateral Type 5	0.55

and such commission shall be payable quarterly in arrears in respect of each Letter of Credit from the date of issue of such Letter of Credit until the earlier of the date of final expiration of that Letter of Credit and such date on which that Letter of Credit is cancelled.

15.2 **Fees non-refundable**

Each of the fees payable under Clause 15.1 shall be deemed earned once it becomes due as provided therein, and, once paid, shall not be returnable in whole or in part in any circumstances.

15.3 **Indemnity against costs**

The Applicant shall pay to the Bank on demand (and shall indemnify and keep the Bank indemnified against) all costs, charges, expenses, claims, liabilities, losses, duties and fees (including, but not limited to, legal fees properly (and in the case of Clauses 15.3.1, 15.3.3 and 15.3.4, reasonably) incurred (subject to agreed limits) and reasonable out-of-pocket expenses) and taxes thereon suffered or incurred by the Bank (and in the absence of fraud, gross negligence or wilful misconduct by the Bank):

15.3.1 in the negotiation, preparation, printing, execution and registration of this Agreement and the other Finance Documents (subject to agreed limits for such costs and, in the case of legal fees a maximum amount of £25,000 (subject to further adjustment as may be agreed between the Bank and the Applicant) plus, in respect of legal fees, VAT and properly incurred disbursements;

15.3.2 in the enforcement or preservation or the attempted enforcement or preservation of any of the Bank's rights and powers under this Agreement and the other Finance Documents or of the security constituted by the Finance Documents on a full indemnity basis;

15.3.3 in connection with any actual or proposed amendment of or supplement to this Agreement or any other of the Finance Documents, or with any request of the Bank to grant any consent or waiver in respect of any provision of this Agreement or any other of the Finance Documents, whether or not the same is given; and

15.3.4 in connection with the accession of any Additional Pledgor in accordance with Clause 18.

15.4 **Stamp duties**

The Applicant shall pay any and all stamp, documentary, registration and like taxes or charges imposed by governmental authorities in relation to this Agreement and the other Finance Documents, and the Applicant shall indemnify the Bank against any and all liabilities with respect to, or resulting from, delay or omission on the part of the Applicant to pay such taxes or charges.

15.5 **General indemnities**

The Applicant shall pay to the Bank within 5 Banking Days of a demand, and shall indemnify the Bank against any losses, expenses or liabilities whether actual or contingent (as to the amount of which the Bank's certificate shall, in the absence of fraud or manifest error, be conclusive evidence) or reasonable costs suffered or incurred by the Bank in connection with or as a result of:

15.5.1 any Letter of Credit which the Bank has agreed to issue, not being issued or being cancelled by reason of the operation of any one or more of the provisions of this Agreement, other than as a result of a default by the Bank;

15.5.2 any default in payment by the Applicant of any sum due under the Finance Documents on its due date; or

15.5.3 the occurrence or continuance of an Event of Default.

15.6 **Currency indemnity**

The following shall apply if any amount is received or recovered by the Bank in respect of any moneys or liabilities due, owing or incurred by an Obligor to the Bank (whether as a result of any judgment or order of any court or in the bankruptcy, administration, reorganisation, liquidation or dissolution of such Obligor or by way of damages for any breach of any obligation to make any payment to the Bank) in a currency (the "**Currency of Payment**") other than Dollars in whatever circumstances and for whatever reason:

15.6.1 such receipt or recovery shall only constitute a discharge by such Obligor to the extent of the amount in Dollars which the Bank is able or would have been able, on the date or dates of receipt by it of such payment or payments in the Currency of Payment (or, in the case of any such date which is not a Banking Day, on the next succeeding Banking Day), to purchase Dollars in the foreign exchange market of its choice with the amount or amounts so received;

15.6.2 if the amount of Dollars which the Bank is so able to purchase falls short of the amount originally due to the Bank, the Applicant shall indemnify and hold the Bank harmless against any loss or damage arising as a result of such shortage by paying to the Bank that amount in Dollars certified by the Bank as necessary to so indemnify and hold harmless the Bank;

15.6.3 this indemnity shall constitute a separate and independent obligation from the other obligations contained in this Agreement, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by the Bank from time to time and shall continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due hereunder or under any such judgment or order; and

15.6.4 the certificate of the Bank as to the amount of any such loss or damage (which shall be deemed to constitute a loss suffered by the Bank) shall (save in case of fraud or manifest error) for all purposes be conclusive and binding on the Applicant.

15.7 **Survival of indemnities**

The indemnities contained in the Finance Documents shall continue in full force and effect after the full and final discharge of the Outstanding Indebtedness with respect to matters arising prior to such discharge.

15.8 **Market disruption**

In this Agreement a "**Market Disruption Event**" shall occur if:

15.8.1 at or about noon on the Quotation Day the Screen Rate is not available; or

15.8.2 before close of business in London on the Quotation Day, the cost to the Bank of obtaining matching deposits in the London interbank market would be in excess of LIBOR or the Bank is unable on the Quotation Day to obtain matching deposits in the London interbank market in sufficient amounts to enable it to fund any applicable amount.

If a Market Disruption Event occurs and the Bank and/or the Applicant so require, the Bank and the Applicant shall enter into negotiations (for a period of not more than 30 days) with a view to agreeing a substitute basis for determining a rate of interest. Any alternative basis so agreed shall, with the prior consent of the Applicant and the Bank, be binding on all of the parties. In the absence of such agreement, LIBOR shall be determined by the Bank by reference to the cost of funds of the Bank in obtaining such matching deposits.

15.9 **Mitigation**

The Bank, in consultation with the Applicant, shall take reasonable steps (including the transfer of its rights, benefits and obligations hereunder to another financial institution which is acceptable to the Applicant) to mitigate any circumstances which arise and which would result in any amount becoming payable under or pursuant to, or cancelled pursuant to, any of:

15.9.1 Clause 6.2;

15.9.2 Clause 6.3;

15.9.3 Clause 16;

15.9.4 Clause 17; or

15.9.5 the Bank transferring its rights and obligations under the Finance Documents to another bank or financial institution,

provided that the Bank shall be under no obligation to take any such action if, in its reasonable opinion, to do so might be prejudicial to it.

16. **INCREASED COST**

16.1 **Increased costs**

Subject to Clauses 16.3 and 16.4, the Applicant shall, within 10 days of receiving a demand by the Bank and subject to the Applicant having received an Increased Cost Certificate, pay to the Bank the amount of any Increased Costs incurred by the Bank or its holding company:

16.1.1 which arises as a result of (i) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation made after the date of this Agreement; and

16.1.2 is attributable to a Basel III Increased Cost.

In this Clause:

"**Basel II**" means the "International Convergence of Capital Measurement and Capital Standards, a Revised Framework" published by the Basel Committee on Banking Supervision in June 2004 as updated prior to, and in the form existing on, the date of this Agreement, excluding any amendment thereto arising out of Basel III;

"**Basel II Approach**" means, in relation to the Bank, either the Standardised Approach or the relevant Internal Ratings Based Approach (each as defined in Basel II) adopted by the Bank (or any of its affiliates) for the purposes of implementing or complying with Basel II;

"**Basel II Regulation**" means:

(a) any law or regulation implementing Basel II to the extent only that such law or regulation re-enacts and/or implements the requirements of Basel II but excluding any provision of such law or regulation implementing Basel III; and

(b) any Basel II Approach adopted by the Bank or any of its affiliates;

"**Basel III**" means:

(a) the agreements on capital requirements, a leverage ratio and liquidity standards contained in "Basel III: A global regulatory framework for more resilient banks and banking systems", "Basel III: International framework for liquidity risk measurement, standards and monitoring" and "Guidance for national authorities operating the countercyclical capital buffer" published by the Basel Committee on Banking Supervision in December 2010, each as amended, supplemented or restated;

(b) the rules for global systemically important banks contained in "Global systemically important banks: assessment, methodology and additional loss absorbency requirement - Rules text" published by the Basel Committee on Banking Supervision in November 2011, as amended, supplemented or restated; and

(c) any further guidance or standards published by the Basel Committee on Banking Supervision relating to "Basel III";

"**Basel III Increased Cost**" means an Increased Cost which is attributable to (a) the implementation or (b) material reinterpretation or clarification of the application or compliance with any Basel III Regulation where such implementation, material reinterpretation or clarification of the application or compliance occurs after the date of this Agreement (whether such implementation or material reinterpretation or clarification of the application or compliance is by a government, regulator, the Bank or any of its affiliates);

"**Basel III Regulation**" means any law or regulation implementing Basel III (including CRD IV and CRR) save and to the extent that such law or regulation re-enacts a Basel II Regulation;

"**CRD IV**" means Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit investment firms, amending Directive 2002/87/EU and repealing Directives 2006/48/EC and 2006/49/EC;

"**CRR**" means Regulation (EU) No. 575/2013 of the European Parliament and of the council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012;

"**Increased Costs**" means:

(a) a reduction in the rate of return from the Facility or on the Bank's (or its holding company) overall capital;

(b) an additional or increased cost of making or maintaining or participating in any Letter of Credit under this Agreement; or

(c) a reduction of any amount due and payable under this Agreement,

which is incurred or suffered by the Bank or its holding company to the extent that it is attributable to the Bank having funded, maintained or performed its obligations under this Agreement or a Letter of Credit; and

"**Increased Costs Certificate**" means a certificate from the Bank setting out the Bank's good faith determination of its Increased Costs.

16.2 **Increased cost claims**

If the Bank intends to make a claim pursuant to Clause 16.1, it shall notify the Applicant of the event giving rise to the claim and of its intention to claim compensation in respect of such event as soon as practicable and provide the Applicant with an Increased Costs Certificate.

16.3 **Exceptions**

Clause 16.1 does not apply to the extent any Increased Cost is:

16.3.1 attributable to a Tax Deduction required by law to be made by an Obligor;

16.3.2 compensated for by Clause 6.3 (or would have been compensated for under Clause 6.3 but was not so compensated solely because any of the exclusions of Clause 6.3.2 applied); or

16.3.3 attributable to fraud or the wilful breach by the Bank or its affiliates of any law or regulation;

16.3.4 attributable to the implementation or application of or compliance with Basel II and/or any Basel II Regulation;

16.3.5 attributable to a FATCA Deduction required to be made by a Party; or

16.3.6 incurred more than 90 days prior to the date that the Bank notifies the Applicant under Clause 16.2 of the change in law giving rise to the Increased Costs unless the change in law giving rise to the Increased Cost is retroactive in which case the 90 day period will be extended to include the period of retroactive effect thereof.

16.4 Comparable Treatment

Notwithstanding any other provision in this Clause 16, the Bank shall not demand compensation from the Applicant for any Increased Costs if the Bank is not demanding such Increased Costs in similar circumstances under comparable provisions of other credit agreements.

17. ILLEGALITY

17.1 Causes of illegality

This Clause 17 applies if the introduction of, or any change in, any applicable law or regulation, or in the interpretation thereof by any authority charged with the administration thereof or by any court of competent jurisdiction, makes it unlawful for the Bank to maintain or give effect to its obligations under this Agreement.

17.2 Cancellation and termination upon illegality

If it becomes unlawful in any applicable jurisdiction for the Bank to perform any of its obligations as contemplated by this Agreement or to issue any Letter of Credit, the Bank shall promptly notify the Applicant upon becoming aware of that event whereupon the Bank's obligation to issue any Letter of Credit may (in the Bank's discretion) be cancelled, any existing Letter of Credit may (in the Bank's discretion) be terminated and, in the case of cancellation or termination, the Applicant shall be obliged to make any payments to the Bank to reimburse the Bank for any amounts paid by the Bank under a Letter of Credit which is then outstanding.

17.3 Force majeure

The Bank will not be liable for any failure on the Bank's part to issue or amend any Letter of Credit resulting, directly or indirectly, from any unforeseen action, inaction or purported action of any government or governmental agency or any strike, boycott or blockade or any cause whatsoever, other than by its own employees, outside its control.

18. CHANGE OF PLEDGOR

18.1 Appointment of Additional Pledgor

The Bank acknowledges that, after the date of this Agreement, the Applicant may at any time request that any person becomes an Additional Pledgor. The following provisions of Clauses 18.2 to 18.4 set out the terms on which, subject to the Bank's approval, any appointment of such Additional Pledgor would take place.

18.2 Bank to approve Additional Pledgor

An Additional Pledgor shall only be appointed with the prior written approval of the Bank but must, in any event, be a company which is able to comply with all the requirements set out in Clause 18.4.

18.3 Deed of accession

Any appointment of an Additional Pledgor shall be effected by way of the accession of the Additional Pledgor to the Pledge and Security Agreement as Pledgor. Such accession shall be effected by and in accordance with the accession letter (a "**Accession Letter**") executed by the Bank, the Applicant and the Additional Pledgor in the form set out in the Pledge and Security Agreement.

18.4 **Conditions precedent to appointment of Additional Pledgor**

The Bank's approval under Clause 18.2 shall be conditional upon, and the Accession Letter executed pursuant to Clause 18.3 shall not be effective unless and until, the following conditions precedent are satisfied:

18.4.1 the Bank (or its legal advisers) has received the following documents and evidence in form and substance satisfactory to it:

(a) a resolution of the board of directors (or its equivalent) from the Additional Pledgor approving the terms of the Accession Letter and resolving that it shall execute, deliver and perform the Accession Letter and authorising a specified person or persons to execute the Accession Letter and/or despatch all other documents and notices to be signed and/or despatched by it under or in connection with the Pledge and Security Agreement;

(b) an accession letter in connection with the Control Agreement duly completed and executed by the Additional Pledgor and the Applicant;

(c) such other certificates, opinions and other documents as the Bank may reasonable request.

18.4.2 the representations and warranties contained in Clause 12 are true and correct at the date on which the change of Pledgor takes effect under the Accession Letter as if all references to the Obligors in such Clause included references to the Additional Pledgor;

18.4.3 none of the circumstances specified in Clause 17 is subsisting; and

18.4.4 no Event of Default has occurred or will arise as a result of the appointment of the Additional Pledgor.

18.5 **Resignation of Pledgor**

The Bank acknowledges that, after the date of this Agreement, the Applicant may at any time request that any person (other than the Applicant) ceases to be a Pledgor. The following provisions of Clauses 18.6 and 18.7 set out the terms on which, subject to the Bank's approval, any resignation of such Pledgor would take place.

18.6 **Bank to approve resignation**

A Pledgor shall only be permitted to resign with the prior written approval of the Bank and such approval will not be given unless:

18.6.1 the Pledgor delivers to the Bank a duly completed and executed resignation letter in the form set out in the Pledge and Security Agreement;

18.6.2 the Pledgor delivers to the Bank a duly completed and executed control agreement resignation letter in such form as the Bank may require;

18.6.3 no breach of Clause 3.7.1 will arise as a result of the resignation of the Pledgor; and

18.6.4 no other Event of Default has occurred or will arise as a result of the resignation of the Pledgor.

18.7 **Release of resigning Pledgor**

Any resigning Pledgor shall be released from its obligations under the Pledge and Security Agreement in accordance with the terms of the Pledge and Security Agreement.

19. **ASSIGNMENTS AND TRANSFERS**

19.1 **Successors and assigns**

This Agreement shall be binding upon and inure to the benefit of each party hereto and its successors and assigns.

19.2 **No assignment by Applicant**

The Applicant may not assign or transfer all or any of its rights, benefits or obligations under this Agreement or under any of the other Finance Documents without the prior written consent of the Bank, such consent not to be unreasonably withheld or delayed.

19.3 **Assignment and transfer by Bank**

The Bank may assign any of its rights under this Agreement or transfer by novation any of its rights and obligations under this Agreement to any other bank or financial institution, subject in each case to obtaining the prior consent of the Applicant, which shall not be unreasonably withheld or delayed, provided that no such consent shall be required in the case of an assignment or transfer:

19.3.1 to any affiliate of the Bank; and/or

19.3.2 which is made after an Event of Default has occurred and is continuing.

19.4 **Sub-participation by Bank**

The Bank may, with the Applicant's prior consent (such consent not be unreasonably withheld or delayed) at any time, at no cost to any Obligor sub-participate all or any of its rights and/or obligations under this Agreement and the other Finance Documents.

19.5 **Disclosure of information**

19.5.1 The Bank agrees to keep all Confidential Information confidential and not to disclose it to anyone, save to the extent permitted by this Clause 19.5, and to ensure that all Confidential Information is protected with security measures and a degree of care that would apply to its own confidential information.

19.5.2 The Bank may disclose:

(a) to any of its affiliates and any of its or their officers, directors, employee, professional advisers, auditors, partners, representatives and any bona fide potential transferee lender, assignee or sub-participant, or to any other party with whom it may propose to enter into contractual relations in connection with this Agreement or any other of the Finance Documents in each case only where that person needs to know that information (as determined by the Bank), such information about the Applicant and each other Obligor and their respective businesses, assets or financial condition as the Bank shall consider appropriate provided that the person to whom any Confidential Information is given has

been advised that such information was provided to the Bank on a confidential basis and the Bank uses reasonable endeavours to procure that the recipient treats and hold such information as confidential; and

(b) to any person to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation and to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes provided that the person to whom any Confidential Information is given has been advised that such information was provided to the Bank on a confidential basis and the Applicant is, where legally permissible, advised as soon as reasonably practicable of such request or disclosure.

19.6 **Change of lending office**

The Bank may at any time and from time to time change its lending office by giving notice to the Applicant and that change shall be effective on the date specified in that notice.

19.7 **Delegation**

The Bank may at any time and from to time to time delegate any one or more of its rights, powers and/or obligations under this Agreement and the other Finance Documents to any person provided that the Bank informs the delegate that all information provided by the Bank to the delegate in connection with such delegation was provided to the Bank on a confidential basis and the delegate treats and holds such information for all purposes as confidential. The Bank will remain liable for each of its obligations under this Agreement and the other Finance Documents.

19.8 **Security over Bank's rights**

In addition to the other rights provided to the Bank under this Clause 19, the Bank may without consulting with or obtaining consent from any Obligor, at any time charge, assign or otherwise create a Security Interest in or over (whether by way of collateral or otherwise) all or any of its rights under any Finance Document to secure obligations of the Bank including, without limitation:

19.8.1 any charge, assignment or other Security Interest to secure obligations to a federal reserve or central bank; and

19.8.2 any charge, assignment or other Security Interest granted to any holders (or trustee or representatives of holders) of obligations owed, or securities issued, by the Bank as security for those obligations or securities,

except that no such charge, assignment or other Security Interest shall:

(a) release the Bank from any of its obligations under the Finance Documents or substitute the beneficiary of the relevant charge, assignment or other Security Interest for the Bank as a party to any of the Finance Documents; or

(b) require any payments to be made by an Obligor or grant to any person any more extensive rights than those required to be made or granted to the Bank under the Finance Documents.

20. SET-OFF.

20.1 Set-off

Following the occurrence of an Event of Default, the Applicant authorises the Bank without prejudice to any of the Bank's rights at law in equity or otherwise, at any time and without notice to the Applicant:

20.1.1 to combine and/or consolidate all or any accounts (whether current, deposit, loan or of any other nature whatsoever, whether subject to notice or not and in whatever currency) of the Applicant with any branch of the Bank;

20.1.2 to apply any credit balance (whether or not then due) on any such account or accounts of the Applicant in or towards satisfaction of any sum due and payable by the Applicant but not paid to the Bank under this Agreement and/or any of the Finance Documents; and

20.1.3 to do in the name of the Applicant and/or the Bank all such acts and execute all such documents as may be necessary or expedient to effect such application.

20.2 Purchase of other currencies

For all or any of the above purposes, the Bank is authorised to purchase with the moneys standing to the credit of such account or accounts any such other currency or currencies as may be necessary to effect such application. The Bank shall not be obliged to exercise any right given to it by this Clause 20.

21. MISCELLANEOUS

21.1 Exercise of remedies

No delay or omission by the Bank to exercise any right, power or remedy vested in it under this Agreement or any other of the Finance Documents or by law shall impair such right, power or remedy, or be construed as a waiver of, or as an acquiescence in, any default by the Applicant or any other Obligor.

21.2 No waiver

If the Bank on any occasion agrees to waive any such right, power or remedy, such waiver shall not in any way preclude or impair any further exercise thereof or the exercise of any other right, power or remedy.

21.3 Waivers to be in writing

Any waiver by the Bank of any provision of this Agreement or any other of the Finance Documents, and any consent or approval given by the Bank, shall only be effective if given in writing and then only strictly for the purpose and upon the terms for which it is given.

21.4 **Amendments to be in writing**

Neither this Agreement nor any of the other Finance Documents may be amended or varied orally but only by an instrument signed by the Bank and each of the other parties thereto.

21.5 **Remedies cumulative**

The rights, powers and remedies of the Bank contained in this Agreement and the other Finance Documents are cumulative and not exclusive of each other nor of any other rights, powers or remedies conferred by law, and may be exercised from time to time and as often as the Bank may think fit.

21.6 **Severability**

If at any time one or more of the provisions of this Agreement or any other of the Finance Documents is or becomes invalid, illegal or unenforceable in any respect under any law by which it may be governed or affected, the validity, legality and enforceability of the remaining provisions shall not be in any way affected or impaired as a result.

21.7 **Counterparts**

This Agreement may be executed in any number of counterparts and all such counterparts taken together shall be deemed to constitute but one and the same instrument.

21.8 **Conclusiveness of Bank's certificates**

The certificate or determination of the Bank of a rate or amount under this Agreement and any other Finance Document is, in the absence of manifest error, prima facie evidence of the matters to which it relates and is binding on the Applicant and the other Obligors.

21.9 **Previous offers by the Bank superseded**

This Agreement shall in all respects supersede the terms of any offer or commitment with respect to the Facility made by or on behalf of the Bank to the Applicant or its agents prior to the date of this Agreement (save for any provision relating to payment of the Bank's fees and expenses).

22. **FURTHER ASSURANCE**

The Applicant shall, upon demand, and at its own expense, sign, perfect, do, execute and register all such further assurances, documents, acts and things as the Bank may reasonably require for the purpose of perfecting the transaction or security contemplated by this Agreement.

23. **NOTICES**

23.1 **Addresses**

All notices (which expression includes any demand, request, consent or other communication) to be given by one party to the other under this Agreement and the other Finance Documents shall be in writing and (unless delivered personally) shall be given by electronic mail or first class pre paid post (airmail if sent internationally) and be addressed:

23.1.1 in the case of the Bank, as follows:

60 London Wall
London EC2M 5TQ

Email: mariette.groen@uk.ing.com / paul.meade@uk.ing.com
Attn: Mariette Groën / Paul Meade

23.1.2 in the case of the Applicant, as follows:

c/o XL House
8 St Stephen's Green
Dublin 2
Ireland

Email: tim.goodyear@xlgroup.com
Attn: Vice President Corporate Treasury

with a copy to the Company Secretary at:

O'Hara House
One Bermudiana Road
Hamilton HM08
Bermuda

Email: kim.wilkerson@xlgroup.com
Attn: Kim Wilkerson

23.2 **Changes of address**

If any party wishes to change its address for communication, it shall give the other party not less than 5 Banking Days' notice in writing of the change desired.

23.3 **Deemed receipt of notices**

Subject to Clause 23.4, notices addressed as provided above shall be deemed to have been duly given when received (in the case of electronic mail), when delivered (in the case of personal delivery), 2 days after posting (in the case of letters sent within the same country), or 5 days after posting (in the case of letters sent internationally by overnight courier service only). provided that notices to the Bank shall be effective only upon their actual receipt by the Bank and the Bank shall confirm receipt of all such notices received by it. In each of the above cases any notice received on a non-working day or after business hours in the country of receipt shall be deemed to be given on the next following working day in such country.

23.4 **Electronic communication**

Any communication to be made between the parties to this Agreement may be made by electronic mail or other electronic means if those two parties:

23.4.1 notify each other in writing of their electronic mail address and/or any other information required to enable the sending and receipt of information by that means; and

23.4.2 notify each other of any change to their address or any other such information supplied by them by not less than 5 Banking Days' notice.

23.5 **English language**

All notices and documents to be given or delivered pursuant to or otherwise in relation to this Agreement and the other Finance Documents shall be in the English language or be accompanied by a certified English translation.

24. APPLICABLE LAW AND JURISDICTION

24.1 **Governing law and jurisdiction**

This Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law. The English courts shall have jurisdiction in relation to any dispute including any dispute in connection with this Agreement and any suit, action or proceeding (referred to together in this Clause 24 as "**Proceedings**") which may arise out of or in connection with this Agreement and for such purposes each party submits to the jurisdiction of such courts. Nothing in this clause shall limit the right of the Bank to take proceedings against the Applicant in the Bermudian courts, any other jurisdiction where the Applicant may be domiciled, the Supreme Court of the State of New York sitting in New York County and the United States District Court of the Southern District of New York.

24.2 **Service of process**

The Applicant hereby irrevocably agrees:

24.2.1 that, for the purpose of Proceedings in England, any legal process may be served upon the XL Services UK Limited whose registered office is currently at XL House, 70 Gracechurch Street, London, EC3V 0XL and which is hereby authorised to accept service on behalf of the Applicant, which shall be deemed to be good service on the Applicant; and

24.2.2 that throughout the Security Period it will maintain a duly appointed process agent in England, duly notified to the Bank, and that failure by any such process agent to give notice thereof to it shall not impair the validity of such service or of a judgment or order based thereon.

AS WITNESS the hands of the duly authorised representatives of the parties hereto the day and year first before written.

SCHEDULE 1

CONDITIONS PRECEDENT DOCUMENTS AND EVIDENCE

The documents and evidence referred to in Clause 10.1 are as follows:

1. Certified copies of the memorandum and articles of incorporation or equivalent constitutional documents of each Obligor.

2. A certificate of good standing for each Obligor or other evidence that each such Obligor is in good standing in its country of incorporation.

3. A certificate of incumbency of each Obligor, signed by the secretary or a director of that Obligor stating its officers and directors.

4. Certified copies of resolutions duly passed by the directors of each Obligor at separate meetings evidencing approval of the transactions contemplated by this Agreement and the other Finance Documents and authorising the execution of the same.

5. If applicable, the original or a certified copy of any power of attorney issued by each Obligor in favour of any person or persons executing this Agreement and the other Finance Documents.

6. If applicable, certified copies of all licences, authorisations, approvals and consents required in connection with the execution, delivery, performance, validity and enforceability of the Finance Documents.

7. A certificate of an authorised signatory of the Applicant confirming that utilising the Facility in full would not breach any limit binding on the Applicant.

8. Certified copies of the Original Financial Statements.

9. Originals of the Finance Documents referred to in Clause 11 and all documents, instruments, notices and acknowledgements thereto required under those Finance Documents duly executed by the relevant Obligors.

10. Evidence that the Collateral Account has been duly opened and that all board resolutions, mandates, signature cards and other documents or evidence required in connection with the opening, maintenance and operation of that account have been duly delivered to the Custodian.

11. Such certificates and documents as the Bank may require to comply with the money laundering prevention procedures then applicable to it.

12. Evidence that XL Services UK Limited has accepted its appointment for service of process in England for the Applicant.

13. Evidence that the Obligors have completed the necessary account opening and know your client documentation in a form required by the Bank.

14. Favourable legal opinions:

14.1.1 on Bermudian law from Appleby;

14.1.2 on New York law from Edwards Wildman Palmer LLP;

14.1.3 on English law from Holman Fenwick Willan LLP; and

14.1.4 on the laws of any other relevant jurisdiction from such firm in that jurisdiction as the Bank may appoint,

or, in respect of any one or more of such legal opinions, confirmation satisfactory to the Bank that the opinion in question will be issued in form and substance acceptable to it within such period after the date of the Application as is acceptable to it.

15. The Investment Collateral has been deposited in the Collateral Account with the Custodian to the extent required under this Agreement.

16. Evidence that all fees and expenses (including outstanding and accrued legal expenses) then due and payable from the Applicant under this Agreement have been or will be paid.

SCHEDULE 2

FORM OF APPLICATION

From: XL Insurance (Bermuda) Ltd

To: ING Bank N.V., London Branch

Dated: [●]

Dear Sirs,

$150,000,000 Credit Facility Agreement dated [●] 2014 (the "Agreement")

1. We refer to the Agreement. This request constitutes an Application. This Application is irrevocable.

2. Terms defined in the Agreement shall have the same meaning in this Application.

3. We hereby give you notice that, pursuant to the Agreement and upon the terms and subject to the conditions contained therein, we wish the Bank to issue on our behalf a Letter of Credit as follows:

Applicant:	[●]
Member:	[●]
Beneficiary:	The Society of Lloyd's
Beneficiary address:	c/o The Manager, Members' Services Unit Fidentia House, Walter Burke Way, Chatham Maritime, Chatham, Kent ME4 4RN
LOC Amount:	[●]
Issuance Date:	[●]
Expiry Date:	31 December 2018

4. We confirm that each condition precedent under the Agreement which must be satisfied on the date of this Application is so satisfied.

5. Please use the standard Lloyd's Letter of Credit wording.

6. Please arrange delivery of the Letter of Credit direct to the Beneficiary.

Yours faithfully

..................…………..…..
Authorised Signatory for and on behalf of
XL Insurance (Bermuda) Ltd

SCHEDULE 3

FORM OF CANCELLATION NOTICE OF ISSUED LETTER OF CREDIT

From: XL Insurance (Bermuda) Ltd

To: ING Bank N.V., London Branch

Dated: [●]

Dear Sirs,

$150,000,000 Credit Facility Agreement dated [●] 2014 (the "Agreement")

1. We refer to the Agreement. This is a request for the cancellation of an issued Letter of Credit pursuant to the Agreement. This request is irrevocable.

2. We hereby request that, pursuant to the Agreement and subject to the terms and conditions contained therein, you cancel the following issued Letter of Credit :

   (a) Letter of Credit Number: [●]

   (b) Issue Date: [●]

   (c) Amount/currency: [●]

   (d) Beneficiary: [●]

Yours faithfully

................…………..…..
Authorised Signatory for and on behalf of
XL Insurance (Bermuda) Ltd

SCHEDULE 4

FORM OF REDUCTION NOTICE FOR ISSUED LETTER OF CREDIT

From: XL Insurance (Bermuda) Ltd

To: ING Bank N.V., London Branch

Dated: [●]

Dear Sirs,

$150,000,000 Credit Facility Agreement dated [●] 2014 (the "Agreement")

1. We refer to the Agreement. This is a request for the reduction of an issued Letter of Credit pursuant to the Agreement.

2. We hereby request that, pursuant to the Agreement and subject to the terms and conditions contained therein, you decrease to the sum of [●] the following issued Letter of Credit :

   (a) Letter of Credit Number: [●]

   (b) Issue Date: [●]

   (c) Original Amount/currency: [●]

   (d) Beneficiary: [●]

   Yours faithfully

..................………..…..
Authorised Signatory for and on behalf of
XL Insurance (Bermuda) Ltd

SCHEDULE 5

FORM OF INCREASE NOTICE FOR ISSUED LETTER OF CREDIT

From: XL Insurance (Bermuda) Ltd

To: ING Bank N.V., London Branch

Dated: [●]

Dear Sirs,

$150,000,000 Credit Facility Agreement dated [●] 2014 (the "Agreement")

1. We refer to the Agreement. This is a request for the increase of the value of an issued Letter of Credit pursuant to the Agreement.

2. We hereby request that, pursuant to the Agreement and subject to the terms and conditions contained therein, you increase to the sum of [●] the following issued Letter of Credit :

   (a) Letter of Credit Number: [●]

   (b) Issue Date: [●]

   (c) Original Amount/currency: [●]

   (d) Beneficiary: [●]

3. We undertake to transfer further Investment Collateral into the Collateral Account representing the equivalent of [●] face value of Letter of Credit.

Yours faithfully

...............................….

Authorised Signatory for and on behalf of

XL Insurance (Bermuda) Ltd

SCHEDULE 6

FORM OF EXTENSION NOTICE FOR ISSUED LETTER OF CREDIT

From: XL Insurance (Bermuda) Ltd

To: ING Bank N.V., London Branch

Dated: [●]

Dear Sirs,

$150,000,000 Credit Facility Agreement dated [●] 2014 (the "Agreement")

1. We refer to the Agreement. This is a request for the extension of an issued Letter of Credit pursuant to the Agreement.

2. We refer to the following issued Letter of Credit :

   (a) Letter of Credit Number: [●]

   (b) Issue Date: [●]

   (c) Amount/currency: [●]

   (d) Beneficiary: [●]

3. We hereby request that, pursuant to the Agreement and subject to the terms and conditions contained therein:

   (a) you extend the expiry date of the issued Letter of Credit listed in paragraph 2 above so that the expiry date under such Letter of Credit is as follows:

   Expiry Date: Evergreen

   (b) the extension to the expiry date shall apply to the full value of the above issued Letter of Credit.

   Yours faithfully

...................………..…..
Authorised Signatory for and on behalf of
XL Insurance (Bermuda) Ltd

SCHEDULE 7

INVESTMENT COLLATERAL

Collateral Description	Advance Rate
<u>Cash</u>	
Cash held with the Custodian	95.0%
Treasury money market funds	95.0%
<u>OECD Government Bonds</u>	
OECD Government Bonds including agencies and agency RMBS backed by the full faith and credit of their respective OECD governments (eg Ginnie Mae, KFW, AGF) rated at least AA- (or AA- equivalent) from S&P ("**Collateral Type 1**"), with maturities of:	
- weighted average life of less than 5 years	95.0%
- weighted average life of greater than or equal to 5 years but less or equal to than 10 years	92.5%
- weighted average life of greater than or equal to 11 years but less or equal to 20 years	90.0%
- weighted average life of greater than or equal to 20 years but less or equal to 30 years	85%
OECD Government Bonds including agencies and agency without RMBS backing by the full faith and credit of their respective OECD governments rated at least AA- (or AA- equivalent) from S&P ("**Collateral Type 2**"), with maturities of:	
- weighted average life of less than 5 years	92.0%
- weighted average life of greater than or equal to 5 years but less or equal to than 10 years	92.0%
- weighted average life of greater than or equal to 11 years but less or equal to 20 years	88.0%
<u>Supranational Bonds</u>	
Bonds which are publicly traded on an internationally recognised exchange and rated at least AA- (or AA- equivalent) from S&P **("Collateral Type 3"**) with maturities of:	
- weighted average life of less than 5 years	90.0%
- weighted average life of greater than or equal to 5 years but less or equal to than 10 years	90.0%
- weighted average life of greater than or equal to 11 years but less or equal to 20 years	85.0%
<u>Government Guaranteed Debt</u>	
Government guarantee debt including debt guaranteed by agencies carrying the full faith and credit of their respective OECD governments (eg SFEFR) and rated at least AA- (or AA- equivalent) from S&P ("**Collateral Type 4**") with maturities of:	

- weighted average life of less than 5 years	95.0%
- weighted average life of greater than or equal to 5 years but less or equal to than 10 years	92.5%

Collateral Description	Advance Rate
- weighted average life of greater than or equal to 11 years but less or equal to 20 years	90.0%
Corporate Bonds	
Non-convertible corporate bonds (excluding corporate bonds issued by a Pledgor) which are publicly traded on a nationally recognised exchange, eligible to be settled by the Depository Trust Company and rated at least AA- (or AA- equivalent) from S&P ("**Collateral Type 5**") (subject to these bonds not exceeding 25% of the total collateral pool after haircuts and subject further to any bonds issued by a single issuer not exceeding 10% of the total collateral pool after haircuts) with maturities of: - weighted average life of less than 5 years - weighted average life of greater than or equal to 5 years but less or equal to than 10 years - weighted average life of greater than or equal to 11 years but less or equal to 20 years	 90.0% 90.0% 85.0%

COMPLIANCE CERTIFICATE

To: **ING BANK N.V., LONDON BRANCH** as Bank

From: **XL INSURANCE (BERMUDA) LTD**

Date: [●] 201[●]

$150,000,000 Credit Facility Agreement dated [●] 2014 (the "Agreement")

1. We refer to the Agreement. This is a Compliance Certificate.
2. Terms defined in the Agreement shall bear the same meaning in this Compliance Certificate.
3. We confirm that as at [*relevant testing date*], the Consolidated Net Worth is $[●] and accordingly there is no Net Worth Deficiency.
4. We set out below calculations establishing the figures in paragraph 3 above:

   [●]

5. We confirm that no Event of Default has occurred and is continuing as at [*relevant testing date*].
6. We are in compliance with our obligations under the Finance Documents as at [*relevant testing date*].
7. We have adhered in all material respects to Lloyd's requirements with regard to the investment of syndicate funds.

By: ____

[Authorised Officer]

SCHEDULE 9

FORM OF BORROWING BASE CERTIFICATE

[*LETTERHEAD OF THE APPLICANT*]

To be provided to the addressee by no later than the 10th day of each month in respect of the Investment Collateral of the Company as of the last day of the immediately preceding month.

To: ING Bank N.V., London Branch

From: XL Insurance (Bermuda) Ltd (the "**Company**")

This Borrowing Base Certificate (the "**Certificate**") is delivered pursuant to the reporting requirements of Clause 13.3 of the Letter of Credit Facility Agreement (as amended and restated from time to time) dated [●] 2014 made between, among others, ourselves as applicant and ING Bank N.V., London Branch as the bank (the "**Letter of Credit Facility Agreement**"). Terms used in this Certificate shall have the meaning provided in the Letter of Credit Facility Agreement unless otherwise defined herein.

The Company represents and warrants that the following calculations determine its Investment Collateral in accordance with the relevant definitions as set forth in the Letter of Credit Facility Agreement and hereby certifies as follows:

1. The Borrowing Base of the Company as of [*insert date*] comprises the following:

Description of Investment Collateral	Investment Collateral Type	Market Value	Adjusted Market Value	Relevant Advance Rate	Calculation of the Borrowing Base
[●]	[Cash]	[●]	$[●]	[●]%	$[●]
[●]	Collateral Type [1][2][3][4][5]	[●]	$[●]	[●]%	$[●]
[●]	Collateral Type [1][2][3][4][5]	[●]	$[●]	[●]%	$[●]
[●]	Collateral Type [1][2][3][4][5]	[●]	$[●]	[●]%	$[●]
[●]	Collateral Type [1][2][3][4][5]	[●]	$[●]	[●]%	$[●]

2. The aggregate amount of the Borrowing Base on that date is $[●].

3. The Company hereby further represents and warrants that the Collateral Account with the Custodian is being maintained in compliance with the provisions of, and subject to the first priority perfected Security Interests in favour of the Bank required by, the Finance Documents and that, as of [*insert date*], the amount of collateral cover provided in relation to the Letters of Credit issued and outstanding under the Facility was equal to or in excess of the amount required to be provided under the Letter of Credit Facility Agreement and subject to the first priority perfected Security Interests in favour of the Bank.

This Certificate is executed on [●] 201[●] by a duly Authorised Officer of the Company.

By: ___________________________________

Name:

Title: [Authorised Officer]

SCHEDULE 10

FORM OF LETTER OF CREDIT

To: The Society and the Council of Lloyd's
c/o The Manager, Market Services
Fidentia House
Walter Burke Way
Chatham Maritime
Chatham
Kent ME4 4RN

Dated [●]

Dear Sirs:

Irrevocable Standby Letter of Credit No. [●]

Re: [XL Insurance (Bermuda) Ltd][XL Re Ltd] (the "**Applicant**")

1. We are pleased to inform you that by order of the Applicant we ING Bank N.V., London Branch (the " **Issuing Bank**") have opened our Irrevocable Credit No. [●] in your favour for a sum not to exceed the aggregate of [●] effective from [●] (the "**Commencement Date**"). This Letter of Credit will expire on the Final Expiration Date.

2. This Letter of Credit shall remain in force until we give you not less than four years notice in writing terminating the same on the fourth anniversary of the Commencement Date or on any date subsequent thereto as specified in such notice (the "**Final Expiration Date**"), our notice to be sent by registered mail for the attention of the Manager, Market Services, at the above address.

3. All charges are for the Applicant's account.

4. Funds under this Letter of Credit are available to you in London upon presentation of your sight draft(s) drawn on us at the above address mentioning ING Bank N.V., London Branch Letter of Credit No. [●].

5. This Letter of Credit is subject to The International Standby Practices – ISP98 (1998 publication - International Chamber of Commerce Publication No 590).

6. This Letter of Credit shall be governed by and interpreted in accordance with English Law and we hereby irrevocably submit to the jurisdiction of the High Court of Justice in England.

7. We hereby engage with you that we will honour draft(s) drawn under and in compliance with the terms and conditions of this Letter of Credit.

Yours faithfully

____

ING BANK N.V. LONDON BRANCH

By: __________________________________

Name:

Title:

By: __________________________________

Name:

Title:

Schedule 1

Form of Demand (Dollars)

[*on Lloyd's letterhead]*

Dear Sir/Madam

THE SOCIETY OF LLOYD'S

TRUSTEE OF [●]

LETTER OF CREDIT NO. [●]

With reference to the above, we enclose for your attention a Bill of Exchange, together with the respective Letter of Credit. Payment should be made by way of CHAPS. The account details are as follows:

[●] Sort Code [●]

[City of London Office Account [●]
P.O. Box 12258
1 Princes Street
London EC2R 8AP]

Please quote Member Code: [●]

Yours faithfully

____
For Manager
Market Services

By: ___________________________
Name:
Title:

Your ref: [●]

Our ref: MEM/ / / /C911f

Extn: [●]

BILLS OF EXCHANGE

The Society of Lloyd's

Trustee of

Letter of Credit No.

Please pay in accordance with the terms of the Letter of Credit to our order the sum of [●].

____
For and on behalf of
[●]
Authorised Signatory

Market Services

To: [*insert name of bank/credit institution*]
as the Issuing Bank

SIGNATURE PAGE

APPLICANT

SIGNED for and on behalf)
of **XL INSURANCE (BERMUDA) LTD**) /s/ C. Stanley Lee
by C. Stanley Lee)
)
its duly appointed SVP, Chief Financial Officer)
in the presence of:)

BANK

SIGNED for and on behalf)
of **ING BANK N.V.,**)
LONDON BRANCH)
by M E R Sharman) /s/ MER Sharman
and P N A Galpin)
its duly appointed signatories) /s/ P N A Galpin
in the presence of:)

Exhibit 10.39

PLEDGE AND SECURITY AGREEMENT

BETWEEN:

XL INSURANCE (BERMUDA) LTD

AND

ING BANK N.V., LONDON BRANCH
as Secured Party

Dated December 30, 2014

TABLE OF CONTENTS

1	Definitions	1
2	Appointment of Custodian	4
3	Representations and Covenants of the Grantor	4
4	Collateral; Establishment of Collateral Accounts	6
6	Reports	9
7	Additional Covenants of the Grantor	9
8	Remedies; Distribution of Collateral	11
9	Miscellaneous	15

Annexes and Exhibits

ANNEX A
EXHIBIT A - Form of Collateral Transfer Notice
EXHIBIT B - Form of Collateral Release Notice

PLEDGE AND SECURITY AGREEMENT (as amended, restated, modified and supplemented and as in effect from time to time, this "Agreement"), dated as of December 30, 2014 made by XL Insurance (Bermuda) Ltd, as grantor (the "Grantor"), in favour of ING Bank N.V., London Branch, as secured party (the "Secured Party").

WITNESSETH:

WHEREAS, the Grantor and the Secured Party have entered into a Credit Facility Agreement, dated as of December 30, 2014 (as amended, restated, modified and/or supplemented from time to time, the "Credit Agreement"), providing for granting of a letter of credit facility for the account of the Grantor, all as contemplated therein;

WHEREAS, it is a condition precedent to the issuance of each Letter of Credit under the Credit Agreement that the Grantor shall have executed and delivered to the Secured Party this Agreement; and

NOW, THEREFORE, in consideration of the benefits accruing to the Grantor, the receipt and sufficiency of which are hereby acknowledged, the Grantor hereby makes the following representations and warranties to the Secured Party and hereby covenants and agrees with the Secured Party as follows:

1. **Definitions**

Terms defined in the Credit Agreement are used herein as defined therein, unless otherwise defined herein. In addition, as used in this Agreement, the following terms have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"**Adverse Claim**" has the meaning assigned to such term in Section 8-102(a)(1) of the UCC;

"**Agreement**" has the meaning provided in the first paragraph of this Agreement;

"**Clearing Corporation**" has the meaning assigned to such term in Section 8-102(a)(5) of the UCC and includes, among other things, DTC;

"**Collateral**" has the meaning provided in Section 4.1 hereof;

"**Collateral Accounts**" has the meaning provided in Section 4.2, and shall include any successor accounts;

"**Collateral Release Notice**" means a duly completed notice from the Grantor to the Custodian in the form of Exhibit B hereof;

"**Collateral Transfer**" means a transfer, deposit or delivery of any Property to be included as Collateral by the Grantor to the Secured Party or the Custodian in accordance with Section 4.3;

"**Control Agreement**" means the Securities Account Control Agreement dated December 30, 2014 among the Custodian, the Grantor and the Secured Party, as amended, restated, modified and supplemented and as in effect from time to time;

"**Credit Agreement**" has the meaning provided in the recitals of this Agreement;

"**Credit Transaction**" means, collectively, all Collateral Transfers and all releases of Collateral pursuant to Section 4.4;

"**Custodian**" means The Bank of New York Mellon;

“**Custody Agreement**” means the Master Custody Agreement dated as of 22 March 2012 between the Grantor, XLIT LTD., the other parties identified as “Principals” thereunder, and the Custodian, as amended, restated, modified or supplemented to, and each other custody agreement entered into by the Grantor and the Custodian;

"**Declared Default**" means an Event of Default which has resulted in the Secured Party exercising any of its rights under clause 14.2 of the Credit Agreement;

"**Derivative Security**" means any security evidencing the right to receive payments of principal only or interest only with respect to an underlying Instrument or Security or otherwise evidencing a right to receive anything but proportionate payments of the principal of and interest on any underlying Instrument or Security, and any forward or futures contract, put, call, collar, option or swap agreement in respect of any Security;

"**DTC**" means the Depository Trust Company, its successors and assigns;

"**Effective Date**" means the date on which the Credit Agreement becomes effective;

"**Financial Asset**" has the meaning assigned to such term in Section 8-102(a)(9) of the UCC;

"**Governmental Authority**" means any nation or government, any state or other political subdivision thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government;

"**Governmental Securities**" means direct obligations of the United States of America, or direct obligations of any agency or instrumentality thereof the obligations of which are expressly backed by the full faith and credit of the United States of America, or obligations fully and expressly guaranteed as to principal and interest by the United States of America or any such agency or instrumentality thereof, other than any Structured Finance Securities or Derivative Securities;

"**Grantor**" has the meaning provided in the first paragraph of this Agreement and shall include any successor thereto;

"**Indemnitee**" has the meaning provided in Section 8.4(b) of this Agreement;

"**Instrument**" has the meaning assigned to such term in Section 9-102(a)(47) of the UCC;

"**Investment Property**" has the meaning assigned to such term in Section 9-102(a)(49) of the UCC;

"**Location**" of the Grantor, means the Grantor's "location" as determined pursuant to Section 9-307 of the UCC;

"**Proceeds**" means all "proceeds" as such term is defined in Section 9-102(a)(64) of the UCC and, in any event, shall include without limitation, all interest on or other income from the Cash from time to time on deposit in any Collateral Account, and all collections and distributions (including, without limitation, interest and dividends) with respect to any Security held in any Collateral Account;

"**Property**" means any right or interest in or to property of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible;

"**Registered Organization**" has the meaning provided in Section 9-102(a)(70) of the UCC;

"**Requirements of Law**" for any Person, means the Certificate of Incorporation and By-Laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation, or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject;

"**Secured Obligations**" means, as to the Grantor, all of the following:

(a) the full and prompt payment when due (whether at stated maturity, by acceleration or otherwise) of all Outstanding Indebtedness, together with all other obligations (including obligations which, but for the automatic stay under Section 362(a) of the Bankruptcy Code, would become due) and the due performance and compliance by the Grantor with all of the terms, conditions and agreements contained in the Credit Agreement and in such other Finance Documents to which it is a party;

(b) any and all sums advanced by the Secured Party pursuant to this Agreement in order to preserve the Collateral or preserve the Secured Party's security interest in the Collateral; and

(c) in the event of any proceeding for the collection or enforcement of any reimbursement obligations or other obligations or liabilities of the Grantor referred to in clause (a) above, after a Declared Default shall have occurred and be continuing, the reasonable expenses of retaking, holding, preparing for sale or lease, selling or otherwise disposing of or realizing on the Collateral, or of any exercise by the Secured Party of its rights hereunder, together with reasonable attorneys' fees and court costs.

Notwithstanding anything to the contrary contained in this definition, it is understood and agreed that the "Secured Obligations" of the Grantor shall include extensions of credit of the types described above under or in connection with the Credit Agreement or this Agreement, whether outstanding on the date of this Agreement or extended from time to time after the date of this Agreement;

"**Secured Party**" has the meaning provided in the first paragraph of this Agreement, and shall include any successor thereto;

"**Security**" and "**Securities**" has the meaning assigned to such term in Section 8-102(a)(15) of the UCC and shall in any event also include for all purposes under this Agreement any time deposits, certificates of deposit and money market deposits of any commercial bank;

"**Securities Account**" has the meaning assigned to such term in Section 4.2(a)(ii);

"**Securities Intermediary**" has the meaning assigned to such term in Section 8-102(a)(14) of the UCC;

"**Security Entitlement**" has the meaning assigned to such term in Section 8-102(a)(17) of the UCC;

"**Structured Finance Securities**" means (a) securities representing participations in, or the payment of which is secured by, a pool of loans the repayment of which is secured by a mortgage, deed of trust, other mortgage securities or other fee or leasehold interest upon real estate or other assets, (b) securities representing participations in, or the payment of which is secured by, a pool of receivables (of any nature) or (c) any similar types of securities, other than, in each case, Derivative Securities;

"**Termination Date**" has the meaning provided in Section 8.8;

"**Transmitting Utility**" has the meaning given such term in Section 9-102(a)(80) of the UCC;

"**UCC**" means the Uniform Commercial Code, as amended, and as in effect from time to time in the State of New York, except that references to sections of the UCC refer to the section numbers of such sections as of the date of this Agreement.

2. **Appointment of Custodian**

2.1 Appointment.

The Grantor and the Secured Party hereby appoint the Custodian as custodian, bailee, and Securities Intermediary of all Cash and other Investment Collateral at any time delivered to, or deposited with, the Custodian in connection with any and all Credit Transactions and as their agent to effect such Credit Transactions.

3. **Representations and Covenants of the Grantor**

3.1 Representations by the Grantor.

The Grantor represents, warrants and covenants that:

(a) subject to the Custody Agreement (and any other custody arrangements with the Custodian or any sub custodian), it is the legal and beneficial owner (or in the case of Financial Assets that underlie Security Entitlements from time to time credited to the Collateral Accounts, the beneficial owner) of, and has good and marketable title to, all of its Collateral consisting of one or more Securities and that it has sufficient interest in all of its Collateral in which a security interest is purported to be created hereunder for such security interest to attach (subject, in each case, to no pledge, lien, mortgage, hypothecation, security interest, charge, option, Adverse Claim or other Security Interest whatsoever, except (i) the Security Interests created by this Agreement, the Control Agreement or Section 5.4 of the Custody Agreement and (ii) any Security Interests arising by operation of law);

(b) it has full power, authority and legal right to pledge all the Collateral pledged by it pursuant to this Agreement;

(c) this Agreement has been duly authorized, executed and delivered by the Grantor and constitutes a legal, valid and binding obligation of the Grantor enforceable against the Grantor in accordance with its terms, except to the extent that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws or legal principles affecting creditors' rights generally and by general equitable principles (regardless of whether enforcement is sought in equity or at law);

(d) except to the extent already obtained or made and subject to applicable bankruptcy, insolvency or similar laws, no consent of any other party (including, without limitation, any stockholder, partner, member or creditor of the Grantor or any of its Subsidiaries) and no consent, license, permit, approval or authorization of, exemption by, notice or report to, or registration, filing (other than a UCC filing or a registration of this Agreement in the Register of Charges in Bermuda, if applicable) or declaration with, any governmental authority is required to be

obtained by the Grantor in connection with (a) the execution, delivery or performance of this Agreement by the Grantor, (b) the validity or enforceability of this Agreement against the Grantor, (c) the perfection the Secured Party's security interest in the Collateral;

(e) neither the execution, delivery or performance by the Grantor of this Agreement, nor compliance by it with the terms and provisions hereof (i) will contravene any provision of any applicable law, statute, rule or regulation, or any applicable order, writ, injunction or decree of any court, arbitrator or governmental instrumentality, domestic or foreign, applicable to the Grantor; (ii) will conflict or be inconsistent with or result in any breach of any indenture, lease, mortgage, deed of trust, credit agreement, loan agreement or any other material agreement, contract or other instrument to which the Grantor or any of its Subsidiaries is a party or is otherwise bound, or by which it or any of its properties or assets is bound or to which it may be subject; or (iii) will violate any provision of the certificate of incorporation, by-laws, certificate of partnership, partnership agreement, certificate of formation or limited liability company agreement (or equivalent organizational documents), as the case may be, of the Grantor;

(f) by reason of the agreements of Bank of New York Mellon as securities intermediary in the Control Agreement, "control" (as defined in Section 8-106 of the UCC) has been obtained by the Secured Party over all of the Collateral consisting of Security Entitlements with respect to which such "control" may be obtained pursuant to Section 8-106 of the UCC, except to the extent that the obligation of the Grantor to provide the Secured Party with "control" of such Collateral has not yet arisen under this Agreement;

(g) the Grantor covenants and agrees that it will defend the Secured Party's and its right, title and security interest in and to the Collateral and the proceeds thereof against the claims and demands of all persons whomsoever; and the Grantor covenants and agrees that it will have like title to and right to pledge any other property at any time hereafter pledged to the Secured Party by the Grantor as Collateral hereunder and will likewise defend the right thereto and security interest therein of the Secured Party;

(h) this Agreement, together with the Control Agreement and the transfer, deposit or delivery of any Collateral by or on behalf of the Grantor to the Secured Party or its agent (including the Custodian), or to any Collateral Account, will constitute, in favour of the Secured Party, a valid first lien on and first priority perfected security interest in all of the Collateral, subject to no other Security Interest, except to any Security Interests in favour of Custodian permitted or contemplated in Section 5.4 of the Custody Agreement or the Security Account Control Agreement, and enforceable as such against all other creditors of the Grantor and except that the attachment, perfection and priority of a security interest in Proceeds may be limited by applicable provisions of the UCC; and

(i) the exact legal name of the Grantor, the type of organization of the Grantor, whether or not the Grantor is a Registered Organization, the jurisdiction of organization of the Grantor, the Grantor's Location, the organizational identification number (if any) of the Grantor, and whether or not the Grantor is a Transmitting Utility, is listed on Annex A hereto. The Grantor shall not change its legal name, its type of organization, its status as a Registered Organization (in the case of a Registered Organization), its status as a Transmitting Utility or as a Person which is not a Transmitting Utility, as the case may be, its jurisdiction of organization, its

Location, or its organizational identification number (if any) from that used on Annex A hereto, except that any such changes shall be permitted (so long as same do not involve a Registered Organization ceasing to constitute same) if (i) it shall give to the Secured Party written notice of not later than 15 days after each change to the information listed on Annex A (as adjusted for any subsequent changes thereto previously made in accordance with this sentence), together with a supplement to Annex A which shall correct all information contained therein for the Grantor, and (ii) in connection with such change or changes, it shall promptly take all action reasonably requested by the Secured Party to maintain the security interests of the Secured Party in the Collateral intended to be granted hereby at all times fully perfected and in full force and effect.

4. **Collateral; Establishment of Collateral Accounts**

4.1 Pledge, Grant of Security Interest. As security for the prompt and complete payment and performance when due of all of the Secured Obligations, the Grantor does hereby assign and transfer unto the Secured Party, and does hereby pledge and grant to the Secured Party, a continuing security interest in all of the right, title and interest of the Grantor in, to and under all of the following property (and all rights therein) of the Grantor, or in which or to which the Grantor has any rights, in each case whether now existing or hereafter from time to time acquired (collectively, the “Collateral”):

(a) each Collateral Account;

(b) all Cash, Securities, Security Entitlements, Investment Property, Financial Assets, credit balances and other assets and Property and all Instruments in respect of any of the foregoing, from time to time deposited or held in or transferred or credited to or carried in any Collateral Account of the Grantor from time to time;

(c) all Securities, cash or Property representing a dividend on any of the Collateral described in paragraph (b), or representing a distribution or return of capital upon or in respect of any of such Collateral, or resulting from a split-up, revision, reclassification or other like change of any of such Collateral or otherwise received in exchange therefor, and any subscription warrants, rights or options issued to the holders of, or otherwise in respect of, any of such Collateral, from time to time held in any Collateral Account; and

(d) all Proceeds of any and all of the foregoing (including, without limitation, all causes of action, claims and warranties now or hereafter held by the Grantor in respect of any of the items listed above), all interest on or other income from the Cash and other Property from time to time held in any Collateral Account, and all collections and distributions with respect to the foregoing.

4.2 Establishment of Collateral Accounts.

(a) On or prior to the Effective Date, the Grantor shall have established with the Custodian, and at all times thereafter until the Secured Obligations shall have been irrevocably and indefeasibly paid in full and this Agreement is terminated in accordance with its terms, the Grantor shall maintain with the Custodian securities accounts as defined in Section 8-501 of the UCC (the "Collateral Accounts" and each, a "Collateral Account") maintained in the name of the Grantor with the Custodian or an Affiliate thereof and which shall at all times be subject to the Control Agreement.

(b) The Grantor shall direct the Custodian to credit any Cash or Securities deposited, delivered or transferred by the Grantor to the Custodian in connection with any Credit Transaction in accordance with Section 4.3 to the Collateral Account.

4.3 Procedures for Depositing Cash and Crediting Securities to Collateral Accounts.

(a) In General. The Grantor may, prior to 1:00 p.m. New York City time, on any Business Day, transfer, deliver or deposit Cash or Securities to the Collateral Account.

(b) Collateral Transfer. Concurrently with, or prior to, any Collateral Transfer to the Custodian for inclusion in the Borrowing Base, the Grantor shall (x) deliver customary forms of the Custodian (completed to the satisfaction of the Custodian) in respect of such Collateral Transfer and (y) notify the Secured Party of such Collateral Transfer in writing, which notice shall be substantially in the form of Exhibit A hereto and shall set forth (i) the date of such Collateral Transfer, (ii) in reasonable detail, a description of the Securities (and the respective fair market value thereof as of the date of such Collateral Transfer), and (iii) a certification that the Borrowing Base is or, after giving effect to such Collateral Transfer and any contemporaneous release of Collateral in accordance with Section 4.4, will be equal to not less than 100% of the aggregate face amount of all issued Letters of Credit on and as of the date of such Collateral Transfer. Each Collateral Transfer shall be made in accordance with customary procedures of the Custodian, which procedures shall be deemed to be incorporated by reference in this Agreement as if set forth in full herein.

(c) Upon the occurrence of each Credit Transaction, the Grantor shall be deemed to represent and warrant to the Secured Party with respect to each item of Property subject to such Credit Transaction or otherwise constituting Collateral that:

(i) if such Property is a Security, it is an Eligible Security;

(ii) the Grantor has noted on its books and records that such Property is pledged to the Secured Party under this Agreement;

(iii) with respect to a Credit Transaction that is not a Collateral Transfer, the Borrowing Base is equal to not less than 100% of the aggregate face amount of all issued Letters of Credit on and as of the date of such Credit Transaction; and

(iv) with respect to each such Property, this Agreement (together with the Control Agreement, any applicable UCC filing and any registration in the Register of Charges in Bermuda) and the delivery of such Property to the respective Collateral Account create a valid first lien on and first priority perfected security interest in such Property in favour of the Secured Party, subject to no other Security Interests (other than Security Interests referred to in the Control Agreement) and enforceable as such against all other creditors of the Grantor in each case to the extent provided in, and subject to the limitations of, applicable law, except to the extent that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganisation, moratorium or other laws or legal principles affecting creditors' rights generally and by general equitable principles (regardless of whether enforcement is sought in equity or at law).

(d) Form of Transfer. The Grantor shall transfer each item of Collateral to the Custodian in a form and manner sufficient to create a perfected first priority security interest therein in favour of the Secured Party under the UCC, and otherwise in a form and manner reasonably acceptable to the Secured Party and the Custodian.

(e) Rights of the Secured Party. Notwithstanding anything to the contrary in this Agreement, the Secured Party shall have the right to reject or direct the return of any Security transferred to any Collateral Account to the extent that it has determined, with the advice of its counsel (which may be in-house counsel), that acceptance of such Security as Collateral or otherwise would violate or conflict with any law, treaty, rule or regulation or determination of any Governmental Authority or other Requirements of Law binding upon the Secured Party.

(f) Further Assurances. In connection with any Collateral Transfer under this Section 4.3 or otherwise in respect hereof, the Grantor shall take such action, at its own expense, as the Secured Party may reasonably request (including, without limitation, delivering undated bond powers or other instruments of transfer or entering into one or more control agreements on terms satisfactory to the Secured Party) for the purpose of ensuring that the Secured Party will have a perfected first priority security interest with respect to each item of Collateral so transferred.

4.4 Procedures for Requesting Releases of Collateral from Collateral Accounts.

(a) In General. The Grantor may, prior to 1:00 p.m. New York City time, on any Business Day, request a release of Collateral from the Custodian, from one or more of its Collateral Accounts in accordance with the procedures set forth in Section 4.4(b) hereof.

(b) Collateral Release Notice. At least one (1) Business Day prior to requesting any such release from the Custodian, the Grantor shall deliver to the Secured Party a Collateral Release Notice substantially in the form of Exhibit B hereto (appropriately completed).

(c) Notwithstanding anything to the contrary contained in this Agreement or any other Finance Document, the Grantor may not request any Collateral to be released by the Custodian pursuant to Section 4.4(b) hereof if, immediately before or after giving effect thereto and any contemporaneous Collateral Transfer, the Borrowing Base would be less than 100% of the aggregate face amount of all issued Letters of Credit on and as of the date of such release, or (ii) if a Declared Default has occurred and is continuing.

(d) Notwithstanding anything to the contrary contained in this Agreement or any other Finance Document, following the occurrence and during the continuation of a Declared Default, the Grantor may request that the Secured Party instruct the Custodian to release any Collateral if, immediately before or after giving effect thereto and any contemporaneous Collateral Transfer, the Borrowing Base would be greater than 125% of the aggregate face amount of all issued Letters of Credit on and as of the date of such release. The Grantor shall deliver to the Secured Party a Collateral Release Notice in accordance with Section 4.4(b), and Secured Party shall grant such release if it reasonably determines that the Collateral remaining after such release is sufficient to provide for a Borrowing Base that, following such release, would be greater than 125% of the aggregate face amount of all issued Letters of Credit on and as of the date of such release. If such request is granted, Secured Party shall, as promptly as possible and in

any event within 30 days of such request, instruct the Custodian to release such Collateral, and the security interest hereunder in favour of the Secured Party in such Collateral shall automatically, without further action on the part of any party, be released.

5. **Reports**

5.1 Rights of Secured Party with Respect to Calculations.

(a) Notices, Reports, Requests, etc. In making the calculations in connection with any notice, request or report or otherwise, (i) the Secured Party shall be entitled (but not obligated) to rely on the Custodian and (ii) the Secured Party and the Custodian shall be entitled to rely on any independent pricing service, in the determination of the Market Value with respect to the Eligible Securities described therein.

(b) Limitation on Liability. In no event shall the Secured Party be liable to the Grantor or any other Person for the accuracy of its determination of the Borrowing Base, the Market Value or the Adjusted Market Value of any item of Collateral, for any determination regarding the eligibility of any Securities for inclusion in the Borrowing Base, or for any other determination or calculation except in the case of its bad faith, gross negligence or wilful misconduct (as determined in a court of competent jurisdiction in a final and non-appealable decision).

6. **Additional Covenants of the Grantor**

In furtherance of the grant of the pledge and security interest pursuant to Section 4.1 hereof, the Grantor hereby agrees with the Secured Party as follows:

6.1 Delivery and Other Perfection. The Grantor shall:

(a) take such action as the Secured Party shall reasonably deem necessary or appropriate to duly record the Security Interest created hereunder in the Collateral;

(b) give, authorize, execute, deliver, file and/or record any financing statement, notice, instrument, document, agreement or other papers that may be necessary or desirable (in the reasonable judgment of the Secured Party) to create, perfect or preserve the priority of the pledge and security interest granted pursuant hereto or to enable the Secured Party to exercise and enforce its rights hereunder with respect to such pledge and security interest, including, without limitation, (i) after the occurrence and during the continuance of a Declared Default causing any or all of the Collateral to be transferred of record into the name of the Secured Party or the Custodian or the Secured Party's nominee (and the Secured Party agrees that if any such Collateral is transferred into its name or the name of its nominee, the Secured Party will thereafter promptly give to the Grantor copies of any notices and communications received by it with respect to such Collateral), (ii) in the case of any Securities to be included in the Collateral that are held on the books of any Clearing Corporation, causing such Securities to be credited to an account of a Securities Intermediary designated by the Secured Party maintained with such Clearing Corporation, and (iii) entering into one or more control agreements; and

(c) if (i) the Grantor is not entitled to receive from the Secured Party distributions with respect to any Collateral pursuant to Section 6.3(a) hereof, (ii) any distribution in respect of any of such

Collateral shall be evidenced by, or any of such Collateral shall otherwise be converted to, any Instrument and (iii) such Instrument is transferred to the Grantor or otherwise at its direction (other than to the Secured Party) in a physical form, immediately transfer, or cause to be transferred, such Instrument to the Custodian for credit to the Collateral Account, and the Custodian shall credit such Instrument to the Collateral Account, duly endorsed in a manner satisfactory to the Secured Party and the Custodian, to be held as Collateral with respect to the Grantor pursuant to this Agreement, and the Grantor shall transfer any cash distributions or interest received by the Grantor immediately to the Custodian for credit to the Collateral Account, and the Custodian shall promptly credit such Instrument to the Collateral Account; and

(d) keep full and accurate records relating to the Collateral.

6.2 Other Financing Statements and Liens. The Grantor shall not file or permit to be on file, or authorize or permit to be filed or to be on file, in any jurisdiction, any financing statement or like instrument with respect to the Collateral in which the Secured Party is not named as the sole secured party or be a party to any control agreement related to the Collateral except in favour of the Secured Party, and (subject to any Custody Agreements and any other custody arrangements with the Custodian or any sub-custodian) shall not otherwise create or permit to exist any Security Interest or any other interest of any kind upon or with respect to any of such Collateral, except for (i) the Security Interests created by this Agreement, the Control Agreement or Section 5.4 of the Custody Agreement and (ii) any Security Interests arising by operation of law.

6.3 Voting Rights; Dividends; etc.

(a) So long as no Declared Default shall have occurred and be continuing, the Grantor shall be entitled (i) to exercise or refrain from exercising any or all voting and other consensual rights in respect of the Collateral or any part thereof for all purposes not inconsistent with the provisions of this Agreement and (ii) to receive from the Secured Party any cash dividend, interest or other cash distribution with respect to the Collateral actually received by the Secured Party, net of withholding for any tax, assessment, charge or levy. In order to release such dividend, interest or distribution, the Grantor may execute an appropriate Collateral Release Notice in respect thereof, subject to the Borrowing Base being equal to at least 100% of the aggregate face amount of all issued Letters of Credit on and as of the date of such release.

(b) The Secured Party shall execute and deliver (or cause to be executed and delivered) to the Grantor all such proxies and other instruments as the Grantor may reasonably request for the purpose of enabling the Grantor to exercise the voting and other rights it is entitled to exercise pursuant to clause (a)(i) above and to receive the dividends or interest payments which it is entitled to receive and retain pursuant to clause (a)(ii) above.

(c) Upon the occurrence and during the continuance of a Declared Default, (i) the Grantor shall hold any dividends, interest or other distributions which it receives with respect to the Collateral in trust for the Secured Party, separate from all other cash of the Grantor, and forthwith transfer such dividends, interest or other distributions to the Custodian for crediting to the relevant Collateral Accounts, (ii) the Secured Party shall be entitled to register all or any item of such Collateral in its own name or in the name of its nominee or designee and (iii) the Secured Party shall be entitled to exercise all voting rights, and to give any and all consents in connection

with, any and all Securities, and the Grantor hereby grants the Secured Party an irrevocable proxy and irrevocably appoints the Secured Party its attorney-in-fact coupled with an interest to vote or otherwise act in furtherance of the purposes hereof. Upon request from the Grantor, the Secured Party shall forthwith make and deliver to the Grantor such powers of attorney, consents or waivers as the Grantor shall reasonably request in order to permit the Grantor to exercise its rights under this Section 6.3. Upon request, the Grantor shall forthwith make and deliver to the Secured Party such powers of attorney, consents and waivers (in addition to the power of attorney and consent set forth in this Section 6.3(c)) as the Secured Party shall reasonably request in order to permit the Secured Party to exercise its rights under this Section 6.3 and this Agreement. Notwithstanding the foregoing, the Grantor may not take any action under this Section 6.3 with respect to any Collateral that, in the Secured Party's reasonable judgment, (i) would in any way affect the Security Interest of this Agreement with respect to an item of Collateral or impair the interest or rights of the Secured Party therein, except as permitted by Section 4.4 hereof or (ii) would otherwise be inconsistent with the provisions of this Agreement or result in a violation hereof. The Grantor shall not give any consent or waiver, authorize any assumption, make any modification and supplement, or take other action with respect to any Collateral in any manner inconsistent with the manner in which the Grantor acts with respect to investments of the same type held by the Grantor for its own account.

6.4 Custody Agreement. The Grantor will not agree to any amendment, waiver, modification or supplement to the Custody Agreement that affects the Collateral Accounts (other than amendments to the standard terms and conditions notified to the Grantor by the Custodian by mailing online or other similar communication) without the prior written consent of the Secured Party.

7. **Remedies; Distribution of Collateral**

7.1 Remedies. The Grantor agrees that, if any Declared Default shall have occurred and be continuing, then and in every such case, the Secured Party, in addition to any rights now or hereafter existing under applicable law and under the other provisions of this Agreement, shall have all rights as a secured creditor under the UCC, and such additional rights and remedies to which a secured creditor is entitled under the laws in effect in all relevant jurisdictions and may:

(a) personally, or by agents or attorneys, immediately take possession of the Collateral or any part thereof, from the Grantor or any other Person who then has possession of any part thereof (including, without limitation, the Custodian) with or without notice or process of law, and for that purpose may enter upon the Grantor's premises where any of the Collateral is located and remove the same and use in connection with such removal any and all services, supplies, aids and other facilities of the Grantor;

(b) instruct the obligor or obligors on any agreement, instrument or other obligation constituting the Collateral to make any payment required by the terms of such agreement, instrument or other obligation directly to the Secured Party and may exercise any and all remedies of the Grantor in respect of such Collateral;

(c) deliver a Notice of Exclusive Control (as defined in the Control Agreement) to the Custodian and/or instruct the Custodian to transfer all Collateral held by the Custodian to the Secured Party;

(d) sell, assign or otherwise liquidate any or all of the Collateral or any part thereof in accordance with Section 7.2 thereof, or direct the Grantor or the Custodian to sell, assign or otherwise liquidate any or all of the Collateral or any part thereof, and, in each case, take possession of the proceeds of any such sale or liquidation;

(e) take possession of the Collateral or any part thereof, by directing the Grantor and/or the Custodian in writing to deliver the same to the Secured Party at any reasonable place or places designated by the Secured Party (including, without limitation, to an account or accounts in the name of the Secured Party designated by the Secured Party), in which event the Grantor and/or the Custodian shall at the Grantor's expense:

(i) forthwith cause the same to be moved, held, transferred, credited or deposited to the place or places (or account or accounts) so designated by the Secured Party and there delivered to the Secured Party; and

(ii) store and keep any Collateral so delivered to the Secured Party at such place or places pending further action by the Secured Party as provided in Section 7.2 hereof;

(f) apply any cash constituting Collateral or proceeds thereof in accordance with the provisions of Section 7.4 hereof;

(g) set-off any and all Collateral against any and all Secured Obligations, and to withdraw any and all cash or other Collateral from any and all Collateral Accounts and to apply such cash and other Collateral to the payment of any and all Secured Obligations of the Grantor;

(h) vote all or any part of the Collateral (whether or not transferred into the name of the Secured Party) and give all consents, waivers and ratifications in respect of the Collateral and otherwise act with respect thereto as though it were the outright owner thereof (the Grantor hereby irrevocably constituting and appointing the Secured Party for the purposes of this Section 7.1(h) the proxy and attorney-in-fact of the Grantor, with full power of substitution to do so);

(i) receive all amounts payable in respect of the Collateral otherwise payable to the Grantor under Section 6.3 hereof; and

(j) take any other action as specified in clauses (1) through (5), inclusive, of Section 9-607(a) of the UCC.

It is understood and agreed that the Grantor's obligation so to deliver the Collateral is of the essence of this Agreement and that, accordingly, upon application to a court of equity having jurisdiction, the Secured Party shall be entitled to a decree requiring specific performance by the Grantor of said obligation. .

7.2 Disposition of the Collateral. If any Declared Default shall have occurred and be continuing, then any Collateral repossessed by the Secured Party under or pursuant to Section 7.1 hereof and any other Collateral whether or not so repossessed by the Secured Party, may be sold, assigned, leased or otherwise disposed of under one or more contracts or as an entirety, and without the necessity of gathering at the place of sale the property to be sold, and in general in such manner, at such time or times, at such place or places and on such terms as the Secured Party may, in compliance with any mandatory requirements of applicable law, determine to be commercially reasonable (including, without limitation, on the NYSE

or any other established market). Any such sale, lease or other disposition may be effected by means of a public disposition or private disposition, effected in accordance with the applicable requirements (in each case if and to the extent applicable) of Sections 9-610 through 9-613 of the UCC and/or such other mandatory requirements of applicable law as may apply to the respective disposition. The Secured Party may, without notice or publication, adjourn any public or private disposition or cause the same to be adjourned from time to time by announcement at the time and place fixed for the disposition, and such disposition may be made at any time or place to which the disposition may be so adjourned. To the extent permitted by any such requirement of law, the Secured Party may bid for and become the purchaser (and may pay all or any portion of the purchase price by crediting Secured Obligations against the purchase price) of the Collateral or any item thereof, offered for disposition in accordance with this Section 7.2 without accountability to the Grantor. The Grantor agrees to do or cause to be done all such other acts and things as may be reasonably necessary to make such disposition or dispositions of all or any portion of the Collateral valid and binding and in compliance with any and all applicable laws (including, without limitation, any state or federal securities laws), regulations, orders, writs, injunctions, decrees or awards of any and all courts, arbitrators or governmental instrumentalities, domestic or foreign, having jurisdiction over any such sale or sales, all at the Grantor's expense.

7.3 Waiver of Claims. Except as otherwise provided in this Agreement, the Grantor hereby waives, to the extent permitted by applicable law, judicial hearing in connection with the secured party's taking possession or the secured party's disposition of any of the collateral, including, without limitation, any and all prior hearing for any prejudgment remedy or remedies, and the Grantor hereby further waives, to the extent permitted by law:

(a) all damages occasioned by such taking of possession or any such disposition except any damages which are the result of the Secured Party's bad faith, gross negligence or wilful misconduct;

(b) all other requirements as to the time, place and terms of sale or other requirements with respect to the enforcement of the Secured Party's rights hereunder; and

(c) all rights of redemption, appraisement, valuation, stay, extension or moratorium now or hereafter in force under any applicable law in order to prevent or delay the enforcement of this Agreement or the absolute sale of the Collateral or any portion thereof, and the Grantor, for itself and all who may claim under it, insofar as it or they now or hereafter lawfully may, hereby waives the benefit of all such laws.

Any sale of, or the grant of options to purchase, or any other realization upon, any Collateral shall operate to divest all right, title, interest, claim and demand, either at law or in equity, of the Grantor therein and thereto, and shall be a perpetual bar both at law and in equity against the Grantor and against any and all Persons claiming or attempting to claim the Collateral so sold, optioned or realized upon, or any part thereof, from, through and under the Grantor.

7.4 Application of Proceeds.

(a) All cash collected by the Secured Party upon any sale or other disposition of the Collateral, together with all other cash received by the Secured Party hereunder, shall be applied as provided in the Credit Agreement.

(b) All payments required to be made hereunder shall be made to the Secured Party.

(c) It is understood that the Grantor shall remain liable to the extent of any deficiency between the amount of the proceeds of the Collateral and the aggregate amount of the Secured Obligations.

(d) If at any time when the Secured Party shall determine to exercise its right to sell all or any part of the Collateral consisting of Securities pursuant to Section 7.2 hereof, either (i) such Collateral or the part thereof to be sold shall not, for any reason whatsoever, be effectively registered under any applicable securities laws, or (ii) such Collateral is effectively registered under applicable securities laws, the Secured Party may, in its sole and absolute discretion, sell such Collateral or part thereof by private sale in such manner and under such circumstances as the Secured Party may deem necessary or advisable, consistent with and to the extent permitted by applicable law, in order that such sale may legally be effected without registration. Without limiting the generality of the foregoing, in any such event the Secured Party, in its sole and absolute discretion:

(i) may proceed to make such private sale notwithstanding that a registration statement for the purpose of registering such Collateral or part thereof shall have been filed under any applicable securities law;

(ii) may approach and negotiate with a single possible purchaser to effect such sale; and

(iii) may restrict such sale to a purchaser who will represent and agree that such purchaser is purchasing for its own account, for investment, and not with a view to the distribution or sale of such Collateral or part thereof. In the event of any such sale, the Secured Party shall incur no responsibility or liability for selling all or any part of the Collateral at a price which the Secured Party may in good faith deem reasonable under the circumstances, notwithstanding the possibility that a substantially higher price might be realized if the sale were deferred until the registration as aforesaid.

7.5 Remedies Cumulative. Each and every right, power and remedy hereby specifically given to the Secured Party shall be in addition to every other right, power and remedy specifically given to the Secured Party under this Agreement, the other Finance Documents or now or hereafter existing at law, in equity or by statute and each and every right, power and remedy whether specifically herein given or otherwise existing may be exercised from time to time or simultaneously and as often and in such order as may be deemed expedient by the Secured Party. All such rights, powers and remedies shall be cumulative and the exercise or the beginning of the exercise of one shall not be deemed a waiver of the right to exercise any other or others. No delay or omission of the Secured Party in the exercise of any such right, power or remedy and no renewal or extension of any of the Secured Obligations shall impair any such right, power or remedy or shall be construed to be a waiver of any Default or Event of Default or an acquiescence thereof. No notice to or demand on the Grantor in any case shall entitle it to any other or further notice or demand in similar or other circumstances or constitute a waiver of any of the rights of the Secured Party to any other or further action in any circumstances without notice or demand. In the event that the Secured Party shall bring any suit to enforce any of its rights hereunder and shall be entitled to judgment, then in such suit the Secured Party may recover reasonable expenses, including reasonable attorneys' fees, and the amounts thereof shall be included in such judgment.

7.6 Discontinuance of Proceedings. In case the Secured Party shall have instituted any proceeding to enforce any right, power or remedy under this Agreement by foreclosure, sale, entry or otherwise, and such proceeding shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Secured Party, then and in every such case the Grantor and the Secured Party shall be restored to their former positions and rights hereunder with respect to the Collateral subject to the security interest created under this Agreement, and all rights, remedies and powers of the Secured Party shall continue as if no such proceeding had been instituted.

7.7 Rights of Secured Party. In making the determinations and allocations required by this Section 7, the Secured Party may rely upon its records and information supplied by the Grantor, the Custodian and any other Person, and the Secured Party shall have no liability to the Grantor for actions taken in reliance on such information, except in the case of its bad faith, gross negligence or wilful misconduct.

7.8 Effect of Bankruptcy; Obligations Absolute.

(a) If, through the operation of any bankruptcy, reorganization, insolvency or other laws or otherwise, the Secured Party's Security Interest hereunder is avoided, disallowed or otherwise not enforced with respect to some, but not all, of the Secured Obligations then outstanding, the Secured Party shall make the calculations required by this Section 7 without giving effect to such Secured Obligations and shall apply the proceeds of the Collateral in the proportions and subject to the priorities specified herein.

(b) The obligations of the Grantor hereunder shall remain in full force and effect without regard to, and shall not be impaired by, (a) any bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation or the like of the Grantor or any other Grantor; (b) any exercise or non-exercise, or any waiver of, any right, remedy, power or privilege under or in respect of this Agreement or any other Security Document; or

(c) Any amendment to or modification of any Finance Document or any security for any of the Secured Obligations; whether or not the Grantor shall have notice or knowledge of any of the foregoing.

8. **Miscellaneous**

8.1 No Waiver. No failure on the part of the Secured Party to exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or plural exercise of any right, power or privilege under this Agreement preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

8.2 Notices. All notices, requests and other communications provided for herein (including, without limitation, any modifications of, or waivers, requests or consents under, this Agreement) shall be given or made in writing and (unless delivered personally) shall be given by facsimile, electronic mail or first class pre-paid post (airmail if sent internationally) and (a) in the case of the Grantor or the Secured Party, at the address for notices specified for such Person in the Credit Agreement and (b) as to any party, at such other address as shall be designated by such party in a notice to each other party. Except as otherwise provided in this Agreement, notices addressed as provided above shall be deemed to have been duly given when received (in the case of facsimile and electronic mail), when delivered (in the

case of personal delivery), two (2) days after posting (in the case of letters sent within the same country), or five (5) days after posting (in the case of letters sent internationally by overnight courier service only). In each of the above cases any notice received on a non-working day or after business hours in the country of receipt shall be deemed to be given on the next following working day in such country.

8.3 Fees and Expenses of Custodian. The Grantor agrees to pay any and all fees, expenses, charges and costs of the Custodian relating solely to the Grantor and/or the Collateral or Collateral Accounts upon demand, and in no event or circumstance will the Security Party have any liability therefor.

8.4 Expenses etc. of Secured Party: Indemnity:

(a) The Grantor agrees to pay or reimburse the Secured Party for: (i) all reasonable out of pocket costs and expenses of the Secured Party (including, without limitation, the reasonable fees and expenses of legal counsel) in connection with (x) any enforcement or collection proceedings, including, without limitation, all manner of participation in or other involvement with (A) bankruptcy, insolvency, receivership, foreclosure, winding up or liquidation proceedings, (B) judicial or regulatory proceedings and (C) workout, restructuring or other negotiations or proceedings (whether or not the workout, restructuring or transaction contemplated thereby is consummated), in the case of (A), (B) and (C) relating solely to the Collateral or Collateral Accounts, and (y) the enforcement of this Section 8.4; and (ii) all transfer, stamp, documentary or other similar taxes, assessments or charges levied by any governmental or revenue authority in respect of this Agreement or any other document referred to herein and all costs, expenses, taxes, assessments and other charges incurred by the Secured Party relating solely to the Collateral or Collateral Accounts in connection with any filing, registration, recording or perfection of any security interest contemplated hereby.

(b) The Grantor agrees to indemnify, reimburse and hold the Secured Party and its respective successors, assigns, employees, affiliates and agents (hereinafter referred to individually as "Indemnitee," and collectively as "Indemnitees") harmless from any and all liabilities, obligations, damages, injures, penalties, claims, demands, actions, suits, judgments and any and all costs, expenses or disbursements (including reasonable attorneys' fees and expenses) (for the purposes of this Section 8.4(b) the foregoing are collectively called "expenses") of whatsoever kind and nature relating solely to the Collateral and Collateral Accounts and imposed on, asserted against or incurred by any of the Indemnitees in any way relating to or arising out of this Agreement or any other document executed in connection herewith or in any other way connected with the administration of the transactions contemplated hereby or the enforcement of any of the terms of, or the preservation of any rights under this Agreement, or in any way relating to or arising out of the ownership, purchase, delivery, control, acceptance, lease, financing, possession, sale, return or other disposition, or use of the Collateral, in each case to the extent permitted by this Agreement; provided that no Indemnitee shall be indemnified pursuant to this Section 8.4(b) for losses, damages or liabilities to the extent caused by the bad faith, gross negligence or wilful misconduct of such Indemnitee (as determined by a court of competent jurisdiction in a final and non-appealable decision). The Grantor agrees that upon written notice by any Indemnitee of the assertion of such a liability, obligation, damage, injury, penalty, claim, demand, action, suit or judgement, the Grantor shall assume full responsibility for the defense thereof. Each Indemnitee agrees to use its best efforts to

promptly notify the Grantor of any matter which is likely to result in a claim against the Grantor under this Section 8.4(b) of which such Indemnitee has knowledge.

(c) Without limiting the application of Section 8.4(a) hereof, the Grantor agrees to pay or reimburse the Secured Party for any and all reasonable fees, costs and expenses of whatever kind or nature relating solely to the Grantor and/or the Collateral and Collateral Accounts and incurred in connection with the creation, preservation or protection of the Secured Party's Security Interests on, and security interest in, the Collateral, including, without limitation, all fees and taxes in connection with the recording or filing of instruments and documents in public offices, payment or discharge of any taxes or Security Interests upon or in respect of the Collateral, and all other reasonable fees, costs and expenses in connection with protecting, maintaining or preserving the Collateral and the Secured Party's interest therein, whether through judicial proceedings or otherwise, or in defending or prosecuting any actions, suits or proceedings arising out of or relating to the Collateral.

(d) Without limiting the application of Section 8.4(a) or (b) hereof, the Grantor agrees, to pay, indemnify and hold each Indemnitee harmless from and against any loss, costs, damages and expenses which such Indemnitee suffers, expends or incurs, if any, in consequence of or growing out of any misrepresentation by the Grantor in this Agreement or in any writing contemplated by or made or delivered pursuant to or in connection with this Agreement.

(e) If and to the extent that the obligations of the Grantor under this Section 8.4 are unenforceable for any reason, the Grantor hereby agrees to make the maximum contribution to the payment and satisfaction of such obligations which is permissible under applicable law.

8.5 Indemnity Obligations Secured by Collateral; Survival. Any amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement shall constitute Secured Obligations secured by the Collateral. The indemnity obligations of the Grantor contained in Section 8.4(b) hereof shall continue in full force and effect notwithstanding the termination of all Letters of Credit issued under the Credit Agreement and the payment of all other Secured Obligations and notwithstanding the discharge thereof and the occurrence of the Termination Date.

8.6 Waiver; Amendment. Except as otherwise expressly provided in this Agreement, none of the terms and conditions of this Agreement may be changed, waived, modified or varied in any manner whatsoever unless in writing duly signed by the Grantor and the Secured Party.

8.7 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns; provided that neither the Grantor nor the Custodian may assign any of its respective rights or obligations hereunder without the prior consent of the Secured Party, such consent not to be unreasonably withheld or delayed.

8.8 Termination. Upon the occurrence of the Termination Date (as defined below) (a) this Agreement and the Security Interests and the power of attorney created hereunder shall automatically terminate (provided that all indemnities set forth herein including, without limitation in Section 8.4(b) hereof, shall survive such termination) and (b) the Secured Party, at the request and expense of the Grantor, will immediately execute, deliver and record proper instruments acknowledging the satisfaction and release of this Agreement and any Security Interests created hereunder (including, without limitation, filing any Uniform Commercial Code termination statements on form UCC-3 and in respect of all

financing statements or registrations, in Bermuda or otherwise, theretofore filed with respect to the Security Interests granted hereunder and notifying the Custodian and all other relevant persons of the termination of all rights of the Secured Party under the Control Agreement) and (c) the Secured Party will immediately duly assign, transfer and deliver to the Grantor (without recourse and without any representation or warranty) such of the Collateral of the Grantor as may be in the possession of the Secured Party and as has not theretofore been sold or otherwise applied or released pursuant to this Agreement. As used in this Agreement, "Termination Date" shall mean the date upon which (a) the Secured Party shall have no obligation to issue additional Letters of Credit under the Credit Agreement and all Letters of Credit issued under the Credit Agreement have either been terminated or are collateralized by Cash and/or Securities in form and amount and in a manner satisfactory to the Secured Party in its sole discretion or are supported by back-to-back letters of credit the terms, conditions and issuer of which are satisfactory to the Secured Party, and (iii) all Secured Obligations then due and payable have been paid in full (save for indemnifications that have not been claimed or matured). If the Secured Party shall fail to execute, deliver or record any UCC 3 termination statement or similar filing or registration or give any notice of termination to the Custodian as aforesaid within one Business Day after the Termination Date, the Secured Party hereby irrevocably authorises the Grantor to do so in the name and on behalf of the Secured Party.

8.9 Powers Coupled with an Interest. Except to the extent otherwise expressly provided herein, all authorizations and agencies herein contained with respect to the Collateral are irrevocable and powers coupled with an interest but solely until the Termination Date.

8.10 Captions. The table of contents and captions and section headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

8.11 Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute this Agreement by signing any such counterpart. Transmission of an executed counterpart or copy of an executed counterpart shall constitute delivery of the original executed counterpart for all purposes.

8.12 Governing Law; Jurisdiction; Consent to Service of Process.

(a) This Agreement shall be construed in accordance with and governed by the law of the State of New York (without giving regard to any conflicts of laws provisions thereof that would cause the application of the laws of any other jurisdiction).

(b) Each party hereto hereby irrevocably and unconditionally submits, for itself and its property, to the non-exclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Secured Party may otherwise have to bring any action or

proceeding relating to this Agreement against the Grantor or its properties in the courts of any jurisdiction.

(c) Each party hereto hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defence of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for service of process in Section 24.2 (Service of Process) of the Credit Agreement. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

(e) The Grantor hereby irrevocably designates, appoints and empowers the service of process agent appointed under the Credit Agreement, as its designee, appointee and agent to receive, accept and acknowledge for and on its behalf, and in respect of its property, service of any and all legal process, summons, notices and documents which may be served in any such action or proceeding. If for any reason such designee, appointee and agent shall cease to be available to act as such, the Grantor agrees to designate a new designee, appointee and agent in New York City on the terms and for the purposes of this provision reasonably satisfactory to the Secured Party under this agreement.

8.13 Waiver of jury trial. Each party hereto hereby waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in an legal proceeding directly or indirectly arising out of or relating to this Agreement or the transactions contemplated hereby (whether based on contract, tort or any other theory). Each party hereto (a) certifies that no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver and (b) acknowledges that it and the other parties hereto have been induced to enter into this agreement by, among other things, the mutual waivers and certifications in this section.

8.14 Integration. This Agreement embodies the entire agreement and understanding among the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings between the Grantor and the Secured Party with respect to the subject matter thereof.

8.15 Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or unenforceability of any other provisions of this Agreement, which shall remain in full and effect.

8.16 *[Signature Page Follows]*

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the day and year first above written.

XL INSURANCE (BERMUDA) LTD,

as Grantor

By__/s/ C. Stanley Lee__
Name: C. Stanley Lee
Title: SVP, Chief Financial Officer

ING BANK N.V., LONDON BRANCH,
as Secured Party

By__/s/ M E R Sharman__
Name: M E R Sharman
Title: Managing Director

By__/s/ PNA Galpin____
Name: PNA Galpin__
Title: Director

ANNEX A

SCHEDULE OF LEGAL NAMES, TYPE OF ORGANIZATION
(AND WHETHER A REGISTERED ORGANIZATION AND/OR
A TRANSMITTING UTILITY), JURISDICTION OF ORGANIZATION,
LOCATION AND ORGANIZATIONAL IDENTIFICATION NUMBERS

Exact Legal Name of the Grantor	Type of Organization (or, if the Grantor is an individual, so indicate)	Registered Organization? (Yes/No)	Jurisdiction of Organization	Grantor's Location (for purposes of UCC §9-307)	Grantor's Organization Identification Number (or, if it has none, so indicate)	Transmitting Utility? (Yes/No)
XL Insurance (Bermuda) Ltd	Company	No	Bermuda	Bermuda	12809	No

EXHIBIT A

Form of Collateral Transfer Notice

(Date)

This is a notice of Collateral Transfer to which reference is made in Section 4.3(b) of the Pledge and Security Agreement, dated as of December 30, 2014 (as the same may be amended, supplemented or otherwise modified from time to time, the "Security Agreement"), among the undersigned ("Grantor") and ING Bank N.V., London Branch, as Secured Party (in such capacity, the "Secured Party"). Unless otherwise defined, capitalized terms used herein shall have the meanings ascribed thereto in the Security Agreement and, if not defined therein, in the Credit Agreement referred to therein.

The undersigned Grantor hereby notifies the Secured Party that the cash and/or securities described in Schedule I attached hereto shall, on or prior to [ ], be delivered, transferred or deposited with the Custodian for inclusion in the Collateral Accounts (and, accordingly, the Borrowing Base).

The Grantor hereby certifies that, with respect to each item of Collateral listed on said Schedule or Schedules, as to each of the matters set forth in Sections 3.1 of the Security Agreement, the Grantor's representations and warranties are true and correct as of the date hereof.

The Grantor hereby certifies that the Borrowing Base is equal to or exceeds in amount 100% of the aggregate face amounts of all issued Letters of Credit on and as of the date of Collateral Transfer contemplated hereby.

Each Schedule attached hereto shall be deemed to be incorporated in the Security Agreement and herein as if set forth in full in the Security Agreement and herein.

XL Insurance (Bermuda) Ltd, as Grantor

By:________
Name:
Title:

EXHIBIT B

Form of Collateral Release Notice

(Date)

This is a Collateral Release Notice to which reference is made in Section 4.4(b) of the Pledge and Security Agreement, dated as of December 30, 2014 (as the same may be amended, supplemented or otherwise modified from time to time, the "Security Agreement"), made by the undersigned ("Grantor") and ING Bank N.V., London Branch, as Secured Party (in such capacity, the "Secured Party"). Unless otherwise defined, capitalized terms used herein shall have the meanings ascribed thereto in the Security Agreement and, if not defined therein, in the Credit Agreement referred to therein.

The undersigned Grantor hereby [*Choose option 1 if no Declared Default; option 2 if Declared Default has occurred and is continuing] [Option 1:* certifies that it has requested that the Custodian, on [date], release from the Collateral Accounts the cash and/or securities described in Schedule I attached hereto.][*Option 2:* request that the Secured Party instruct the Custodian to release from the Collateral Accounts the cash and/or securities described in Schedule I attached hereto.]

The Grantor hereby represents and warrants that:

[*Choose one:*(a) no Declared Default has occurred and is continuing or would result after giving effect to the release referred to above and (b) the Borrowing Base is in amount equal to at least 100% of the aggregate stated amounts of all issued Letters of Credit on the date hereof and after giving effect to the Collateral release referred to above.

[*or*]

(a) a Declared Default has occurred and is continuing, but (b) the Borrowing Base is in amount equal to at least 125% of the aggregate stated amounts of all issued Letters of Credit on the date hereof and after giving effect to the Collateral release referred to above.]The Grantor hereby certifies that, with respect to each item of Collateral listed on said Schedule or Schedules, as to each of the matters set forth in Sections 3.1 of the Security Agreement, the Grantor's representations and warranties are true and correct as of the date hereof.

Each Schedule attached hereto shall be deemed to be incorporated in the Security Agreement and herein as if set forth in full in the Security Agreement and herein.

XL Insurance (Bermuda) Ltd, as Grantor

By:________

Name:

Title:

Exhibit 10.40

AMENDED AND RESTATED PLEDGE AGREEMENT

AMENDED AND RESTATED PLEDGE AGREEMENT, dated as of 19th December, 2014 (as may be amended, restated or otherwise modified from time to time, this "**Agreement**"), made among **XL Insurance (Bermuda) Ltd,** a company organized and existing under the laws of Bermuda (with company registration number 12809) whose address of its registered or principal office is at O'Hara House, One Bermudiana Road, Hamilton HM08, Bermuda (the "**Applicant**"), **XL Re Ltd**, a company organized and existing under the laws of Bermuda (with company registration number 21291) whose address of its registered or principal office is at O'Hara House, One Bermudiana Road, Hamilton HM08, Bermuda (the "**Second Pledgor**"), (the Applicant and the Second Pledgor, together referred to as the "**Original Pledgors**", and together with any Additional Pledgor from time to time becoming hereto, the "**Pledgors**"), and **Citibank Europe plc** (the "**Pledgee**")

PRELIMINARY STATEMENTS.

(1) The Applicant and the Pledgee have entered into the Master Agreement (as defined in Exhibit A) pursuant to which the Pledgee may from time to time in its sole discretion issue or procure the issuance of, for the account of the Applicant, letters of credit or similar or equivalent instruments (each a "***Credit***" and, collectively, the "***Credits***").

(2) Each Pledgor has agreed to collateralize the obligations of the Applicant owed to the Pledgee that result from time to time under the Master Agreement and in respect of the Credits issued thereunder whether now existing or from time to time hereafter incurred or arising, as such obligations are more fully defined in Section 3 of this Agreement as the Secured Obligations.

(3) The Pledgors and the Pledgee entered into a Pledge Agreement, dated as of November 11, 2009 (as amended, supplemented or otherwise modified from time to time, the "***Original Agreement***") for the purpose of securing the Secured Obligations and subjecting the property hereinafter described to the Lien of this Agreement as security for the performance of the Secured Obligations.

(4) The Pledgors have each opened an account with Bank of New York Mellon (the "Securities Intermediary") at its office at One BNY Mellon Center, 500 Grant Street, AIM 151-1035, Pittsburgh, PA 15235 U.S.A. as set out in Schedule 7 (as may be amended from time to time), and the related deposit account number(s) referred to in the control agreement and each Additional Pledgor will open such an account upon entering into this Agreement (in relation to each Pledgor, and together with any successor account or additional account (including any account established pursuant to Section 4(e) hereof) opened and maintained for this purpose, that Pledgor's "Account").

(5) Each of the Pledgors, the Pledgee, and the Securities Intermediary have entered into, and each Additional Pledgor will enter into, the Control Agreement (as defined in Exhibit A) pursuant to which the Accounts and the Collateral will be administered and maintained.

(6) The parties hereto wish to amend and restate the Original Agreement as set forth herein.

NOW THEREFORE, in consideration of the terms, conditions and mutual promises set forth herein, and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree that effective as of the date set forth above, the Original Agreement shall be deemed amended and restated in its entirety as follows:

Section 1. **Defined Terms** Except as otherwise expressly provided herein, capitalized terms used herein shall have the meanings assigned to such terms in Exhibit A.

Section 2. **Grant of Security**. Subject to and in accordance with the provisions of this Agreement, each Pledgor hereby pledges and grants to the Pledgee a first priority security interest in and a Lien on all of that Pledgor's right, title and interest, whether now owned or hereafter acquired, in all of the following (collectively, the "***Collateral***"):

(i) that Pledgor's Account;

(ii) the Securities and any Instruments or other Financial Assets from time to time credited to that Pledgor's Account (the "***Pledged Securities***") including, without limitation, any Security Entitlement in respect of that Pledgor's Account, the Pledged Securities or any of them, and any cash from time to time credited to that Pledgor's Account;

(iii) all additional Investment Property (including without limitation) Securities, Security Entitlements, Financial Assets, or other property and all funds, cash or cash equivalents (together with any applicable Account or Securities Account of that Pledgor) from time to time received, receivable or otherwise distributed in respect of or in exchange or substitution for any other Collateral (all such funds, cash or cash equivalents to be Financial Assets for the purposes of this Agreement; and

(iv) all Proceeds (including, without limitation, cash Proceeds) of any or all of the foregoing, including without limitation, Proceeds that constitute property of the types described in clauses (i), (ii) and (iii) above.

Section 3. **Security for Obligations.** In relation to each Pledgor, this Agreement (and the Collateral pledged by that Pledgor hereunder) secures the payment of all obligations of the Applicant now or hereafter existing under the Master Agreement (including all contingent obligations with respect to Credit(s) issued or procured for issuance by the Pledgee for the Applicant's account or the account of an affiliate of the Applicant pursuant to the terms of the Master Agreement), and further secures the payment of all present and future obligations of each Pledgor under this Agreement, in each case, whether direct or indirect, absolute or contingent, and whether for principal, interest, fees, expenses or otherwise, including the payment in accordance with terms hereof and thereof of any and all expenses (including reasonable counsel fees and expenses) incurred by the Pledgee in enforcing any rights under this Agreement and the Master Agreement (all such obligations being the "***Secured Obligations***"). In relation to each Pledgor, this Agreement is intended to convey to the Pledgee, and each Pledgor hereby grants to the Pledgee, the right and power to exercise exclusive control over all Security Entitlements in, and the sole right and power to direct dispositions of all cash deposits in that Pledgor's Account for the purposes of sections 8-106, 9-106 and 9-104 of the NYUCC. For the avoidance of doubt, and notwithstanding anything in this Agreement or the Master Agreement to the contrary, all amounts paid by any Pledgor, realised from a Pledgor's Collateral or otherwise applied in respect of a Pledgor to the Secured Obligations shall be applied without duplication of any such amounts paid or applied with respect to the other Pledgors and shall, to the extent so paid or applied, satisfy the obligations of all Pledgors hereunder and under the Master Agreement with respect to such Secured Obligations.

Section 4. **Delivery and Maintenance of Security Collateral**

(a) In connection with the issuance of Credits from time to time pursuant to the terms of the Master Agreement, the Pledgors (in such combination as they may determine in their sole discretion) shall cause cash and/or Securities of the type specified in Schedule 1 (the "***Qualifying Collateral***") to be credited to the Accounts in accordance with the Control Agreement as Collateral so that the Letter of Credit Value of such Qualifying Collateral as of the date of issuance of such Credit or Credits shall, in the aggregate with respect to all Pledgors, equal or exceed an amount equal to the aggregate

face amount of the then outstanding Credits, all as determined in accordance with the provisions of this Agreement, including Schedule 1 and Schedule 2 hereto (the "***Required Account Value***").

(b) Pledgors may pledge additional Qualifying Collateral hereunder at any time.

(c) Intentionally Omitted.

(d) In the event that the aggregate Letter of Credit Value of the Collateral credited to all Accounts shall be less than the Required Account Value for any reason, the Pledgors shall, within 5 Business Days after receipt of written notice from the Pledgee, cause additional Qualifying Collateral to be credited to one or more Accounts to the extent necessary to cause the aggregate Letter of Credit Value of the Collateral credited to all Accounts to equal or exceed the Required Account Value.

(e) In relation to any Pledgor, upon the occurrence of a Net Worth Deficiency (whether or not subsequently cured) or upon the announcement by any Pledgor of its decision to cease writing insurance or reinsurance business, the Pledgee may upon written notice to that Pledgor transfer, or require that Pledgor as promptly as reasonably practicable after receipt of such written notice to transfer, that Pledgor's Collateral from that Pledgor's Account to a securities account at Citibank, N.A. (London, England branch), and to execute as promptly as reasonably practicable after receipt of such written notice a charge governed by English law (in substantially the customary form used by the Pledgee, a copy of which charge has been provided to the relevant Pledgor) in substitution for or in addition to this Agreement.

Section 5. **Use of Proceeds** Proceeds that are received in respect of any Collateral shall be held as cash Collateral as provided in Section 2 of this Agreement and shall be deposited and maintained in the Account.

Section 6. **Representations, Warranties and Covenants**

Each Pledgor represents, warrants and covenants as follows:

(a) It is duly organized and validly existing under the laws of the jurisdiction of its organisation and has all requisite corporate power and authority (including, without limitation, all governmental licenses, permits and other approvals except where such failure would not have a material adverse effect on its business) to own or lease and operate its properties and to carry on its business as now conducted and as proposed to be conducted.

(b) The execution, delivery and performance by it of this Agreement, and the consummation of the transactions contemplated hereby, are within its corporate powers and have been duly authorized by all necessary corporate action.

(c) All of its Collateral consisting of certificated securities and instruments has been delivered to the Pledgee or the Securities Intermediary with appropriate instruments of endorsement in blank.

(d) No consent of any other Person and no authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or other third party is required for any of (i) for the grant by it of the security interest granted hereby, for the pledge by it of its Collateral pursuant hereto or for the execution, delivery or performance of this Agreement by it, (ii) for the perfection or maintenance of the pledge and security interest created hereby (including the first priority nature of such pledge or security interest), save that it may be required to register this Agreement in the Register of Charges in Bermuda (with respect to Pledgors organized in Bermuda), and the actions described in Section 4 of this Agreement with respect to its Collateral, which actions have been or, at the times required pursuant to Section 4, will be taken and are, or at such times or times will be, in full force and effect or (iii) for the exercise by the Pledgee of its rights provided for in this Agreement or the remedies in respect of its Collateral pursuant to this Agreement, except as may be required in connection with the disposition of any portion of its Collateral by laws affecting the offering and sale of securities generally.

(e) The execution, delivery and performance by it of this Agreement and the consummation of the transactions contemplated hereby, (i) do not violate any provision of any law, rule or regulation applicable to it; (ii) do not and will not conflict with its charter or by-laws or substantively similar constitutive documents; or (iii) do not and will not conflict with or result in a breach of, or constitute a default under, or result in the creation or imposition of any Lien (other than the Lien in favour of the Pledgee created hereby) upon any of its property or assets (excluding Collateral) of itself or any of its subsidiaries, under any indenture, loan agreement, mortgage, deed of trust or other instrument or agreement to which it or any of its subsidiaries may be or become a party or by which it may be or become bound or to which its property or assets or any of its subsidiaries may be or become subject, except as would not have a material adverse effect on such Pledgor or the rights of the Pledgee hereunder.

(f) It is the legal and beneficial owner (or, in the case of Financial Assets that underlie Security Entitlements from time to time credited to the Accounts, the beneficial owner) of the Collateral, and has and shall at all times have rights in, and good and marketable title to, the Collateral, free and clear of all Liens and “adverse claims” (as such term is defined in Section 8-102(a)(1) of the NYUCC), save as exist under the Control Agreement or as may have been disclosed by it to the Pledgee in writing prior to the date of this Agreement. Liens in favour of Citibank Europe plc securing its reimbursement obligations to Citibank Europe plc in connection with the issuance of letters of credit shall be deemed to have been disclosed in writing to the Pledgee. No effective financing statement or other instrument similar in effect covering all or any part of the Collateral or listing it or any trade name of it as debtor with respect to the Collateral is on file in any recording office, except such as may have been filed in favour of the Pledgee.

(g) It undertakes upon a Change of Control promptly to inform the Pledgee of such fact and to enter into such additional documentation as is reasonably required by the Pledgee in order to ensure that the rights of the Pledgee under this Agreement are in no way prejudiced, including but not limited to, in the case of the Applicant, the entering into of any new Master Agreement on substantially the same terms as those existing at such time.

(h) (i) This Agreement and the pledge of its Collateral pursuant hereto create a valid security interest in its Collateral, securing the payment of the Secured Obligations, (ii) this Agreement and the Control Agreement are sufficient to perfect such security interest in its Account and all Financial Assets and cash from time to time credited thereto, and (iii) assuming the Pledgee has no notice of any Liens or “adverse claims” (as such term is defined in Section 8-102(a)(1) of the NYUCC) with respect to its Collateral, the Pledgee will take its Collateral free and clear of any Liens and adverse claims.

(i) No Pledgor is, or is “controlled by”, an “investment company”, within the meaning of such terms in the Investment Company Act of 1940, as amended, and no Pledgor is otherwise subject to regulation under said Act.

Section 7. **Further Assurances**

(a) Each Pledgor agrees that from time to time and at its own cost, it will promptly execute and deliver, or otherwise authenticate, all further instruments and documents, and take all further action, that may be necessary, or that the Pledgee may reasonably request, in order to continue, perfect and protect any pledge or security interest granted or purported to be granted hereby or to enable the Pledgee to exercise and enforce its rights and remedies hereunder with respect to any of its Collateral. Without limiting the generality of the foregoing, each Pledgor will execute and file such other instruments or notices, as may be necessary from time to time, or as the Pledgee may reasonably request, in order to perfect and preserve the pledge and security interest granted or purported to be granted hereby.

(b) Each Pledgor will furnish to the Pledgee from time to time statements and schedules further identifying and describing its Collateral and such other reports in connection with its Collateral as the Pledgee may reasonably request, all in reasonable detail.

Section 8. **Post-Closing Changes** Immediately after any change in its name, type of organization, jurisdiction of organization, organizational identification number or location of its principal or registered office from those set forth on the first page of this Agreement, such Pledgor will inform Pledgee of such fact and take all action reasonably required by the Pledgee for the purpose of perfecting or protecting the security interest granted by this Agreement. No Pledgor will become bound by a security agreement authenticated by another Person (determined as provided in Section 9-203(d) of the NYUCC) in relation to its Collateral. Each Pledgor will hold and preserve its records relating to its Collateral and will permit representatives of the Pledgee at any time during normal business hours on the Pledgor being given 5 Business Days prior notice of such inspection in writing to inspect and make abstracts from such records and other documents. If any Pledgor does not have an organizational identification number and later obtains one, it will forthwith notify the Pledgee of such organizational identification number.

Section 9. **Entitlement Order** Intentionally Omitted.

Section 10. **Distributions** Other than upon and during the continuance of an Event of Default,

(i) each Pledgor shall be entitled to exercise any and all voting and other consensual rights pertaining to its Collateral or any part thereof for any purpose; and

(ii) any and all distributions paid in respect of the Pledged Securities shall be paid into the relevant Pledgor's Account (but subject always to the Pledgors' rights under Section 4(b) of this Agreement and the other terms of this Agreement);

in each case as further provided for in the Control Agreement.

Section 11. **Transfer and Other Liens** Except in accordance with the provisions of Section 4 hereof, no Pledgor shall (i) sell, assign or otherwise dispose of, or grant any option with respect to, any of its Collateral, or (ii) create or suffer to exist any Lien upon or with respect to any of its Collateral, including any right to give any Entitlement Order with respect to its Collateral, except for the pledge and security interest created by this Agreement.

Section 12. **Pledgee Appointed Attorney-in-Fact** Each Pledgor hereby irrevocably appoints the Pledgee as its attorney-in-fact, with full authority upon the occurrence and during the continuance of an Event of Default, in the place and stead of that Pledgor and in the name of that Pledgor or otherwise, from time to time during the continuance of such Event of Default, in the Pledgee's discretion, to take any action and to execute any instrument that the Pledgee may deem necessary or advisable to accomplish the purposes of this Agreement, including, without limitation:

(a) to ask for, demand, collect, sue for, recover, compromise, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of its Collateral,

(b) to receive, indorse and collect any drafts or other instruments or documents, in connection with clause (a) above, and

(c) to file any claims or take any action or institute any proceedings that the Pledgee may deem necessary for the collection of any of its Collateral or otherwise to enforce the rights of the Pledgee with respect to any of its Collateral.

Section 13. **Pledgee May Perform** If any Pledgor fails to perform any agreement contained herein within ten Business Days of a notice from the Pledgee to do so, the Pledgee may, but without any obligation to do so and without further notice, itself perform, or cause performance of, such agreement, and the expenses of the Pledgee incurred in connection therewith shall be payable by that Pledgor under Section 17(b) hereof. Notwithstanding any of the foregoing, if at any time an Event of Default has occurred and is continuing, the Pledgee will not be required to provide the Pledgor with any such notice and the Pledgee may, but without any obligation to do so itself perform, or cause performance of, such agreement, and the expenses of the Pledgee incurred in connection therewith shall be payable by that Pledgor under Section 17(b) hereof.

Section 14. **The Pledgee's Duties** The powers conferred on the Pledgee hereunder are solely to protect its interest in any Pledgor's Collateral and shall not impose any duty upon it to exercise any such powers. Except for the safe custody of any Collateral in its possession and the accounting for moneys actually received by it hereunder, the Pledgee shall have no duty as to any Collateral, as to ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any Collateral, whether or not the Pledgee has or is deemed to have knowledge of such matters, or as to the taking of any necessary steps to preserve rights against any parties or any other rights pertaining to any Collateral. The Pledgee shall be deemed to have exercised reasonable care in the custody and preservation of any Collateral in its possession if such Collateral is accorded treatment substantially equal to that which the Pledgee accords its own property.

Section 15. **Security Interest Absolute** The obligations of each Pledgor under this Agreement are independent of the Secured Obligations and any agreement with respect to the Secured Obligations, and a separate action or actions may be brought and prosecuted against any Pledgor to enforce this Agreement, irrespective of whether any action is brought against the Applicant under the Master Agreement or whether that Pledgor is joined in any such action or actions. All rights of the Pledgee and the pledge and security interest hereunder, and all obligations of each Pledgor hereunder, shall be irrevocable, absolute and unconditional, irrespective of, and each Pledgor irrevocably waives (to the maximum extent permitted by applicable law) any defenses it may now have or may hereafter acquire in any way relating to, any or all of the following:

(a) any lack of validity or enforceability of this Agreement, the Master Agreement or any other agreement or instrument relating thereto;

(b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Secured Obligations or any other amendment or waiver of or any consent to any departure from this Agreement or the Master Agreement, including, without limitation, any increase in the Secured Obligations;

(c) any taking, exchange, release or non-perfection of any other collateral, or any taking, release or amendment or waiver of or consent to departure from any guaranty for all or any of the Secured Obligations;

(d) any manner of application of its Collateral, or Proceeds thereof, to all or any of the Secured Obligations, or any manner of sale or other disposition of any of its Collateral for all or any of the Secured Obligations or any other assets of any Pledgor or any of its subsidiaries;

(e) any change, restructuring or termination of the corporate structure or existence of any Pledgor or any of its subsidiaries; or

(f) any other circumstance that might otherwise constitute a defense available to, or a discharge of, any Pledgor in its capacity as such.

Section 16. **Remedies** In relation to any Pledgor, if an Event of Default shall have occurred and be continuing:

(a) The Pledgee may exercise in respect of that Pledgor's Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party upon default under the NYUCC and also may without notice except as specified below, sell that Pledgor's Collateral or any part thereof in one or more parcels at public or private sale, at any of the Pledgee's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Pledgee may deem commercially reasonable. Each Pledgor agrees that, to the extent notice of sale shall be required by law, at least ten days' written notice to that Pledgor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Pledgee shall not be obligated to make any sale of that Pledgor's Collateral regardless of a notice of sale having been given. The Pledgee may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

(b) The Pledgee may, without notice to or consent by any Pledgor, give a Notice of Exclusive Control (as defined in the Control Agreement) to the Securities Intermediary or other Person holding any Account, whereupon such Pledgor shall have no right to give further entitlement orders or other instructions to the Securities Intermediary or such Person (and for the avoidance of doubt, the Pledgors acknowledge that the Pledgee's exclusive control may include, without limitation, the right to instruct the Securities Intermediary to liquidate any or all Collateral, convert the same to cash, and convert such cash from any currency to any other currency and to reinvest such cash in other investments, whether or not Qualifying Collateral).

(c) All rights of each Pledgor to exercise all voting and other consensual rights and receive and retain distributions and all other rights and privileges described in Section 10 shall automatically terminate, and all such rights shall automatically become vested in the Pledgee, which shall immediately be entitled to exercise all voting and other consensual rights and receive and retain distributions and exercise all other rights and privileges described in said Section.

(d) Any cash held by or on behalf of the Pledgee and all cash Proceeds received by the Pledgee in respect of any sale of, collection from, or other realization upon all or any part of that Pledgor's Collateral may, in the discretion of the Pledgee, be held by the Pledgee as that Pledgor's Collateral for, and/or then or at any time thereafter applied (after payment of any amounts payable to the Pledgee pursuant to Section 17) in whole or in part by the Pledgee against all or any part of the Secured Obligations in such order as the Pledgee shall elect. Any surplus of such cash or cash Proceeds held by the Pledgee and remaining after payment in full or other discharge of all the Secured Obligations shall be paid over to the relevant Pledgor or to whomsoever may be lawfully entitled to receive such surplus.

(e) The Pledgee may, without notice to any Pledgor, except as required by law and at any time or from time to time, charge, set-off and otherwise apply all or any part of the Secured Obligations against that Pledgor's Collateral or any part thereof.

(f) The Pledgor expressly authorises the Pledgee, and the Pledgee shall, at any time it reasonably determines is necessary to enable the Pledgee to better perfect or protect the security interests granted hereunder, upon written notice to that Pledgor, transfer to or register in the name of the Pledgee or any of its nominees any or all of that Pledgor's Collateral in order to preserve the rights and interests of the Pledgee in that Pledgor's Collateral.

(g) All payments received by any Pledgor in respect of its Collateral shall be received in trust for the benefit of the Pledgee, shall be segregated from other funds of that Pledgor that do not constitute Collateral and shall be forthwith paid over to the Pledgee or credited to that Pledgor's Account in the same form as so received (with any necessary indorsement).

(h) At any time when an Event of Default has occurred and is continuing, if, by reason of a decrease in the maximum aggregate stated amount of all Credits then outstanding and scheduled to remain outstanding, the aggregate Letter of Credit Value of all Collateral of all Pledgors exceeds 125% of the Required Account Value, then notwithstanding the continuance of such Event of Default, the Pledgee will reasonably consider a request by the Pledgors to release Collateral in excess of 125% of the Required Account Value. If such request is granted, such release shall occur within 30 days of the Pledgor’s request therefor and the security interest hereunder in favor of the Pledgee in such Collateral shall automatically, without further action on the part of any party, be released.

Section 17. **Indemnity and Expenses**

(a) Each Pledgor jointly and severally undertakes to indemnify the Pledgee, within 5 Business Days of demand, for and against all actions, proceedings, losses, damages, charges and all reasonable costs, expenses, claims and demands which the Pledgee may incur, pay or sustain in connection with this Agreement, howsoever arising (unless resulting from the Pledgee’s own bad faith, gross negligence or wilful misconduct).

(b) Each Pledgor will, within 5 Business Days of demand, jointly and severally pay to the Pledgee the amount of any and all reasonable expenses, including the reasonable fees and expenses of its counsel, and of any experts and agents that the Pledgee may incur in connection with (i) the administration of this Agreement, (ii) the custody, preservation, use or operation of, or the sale of, collection from or other realization upon, any of its Collateral, (iii) the exercise or enforcement (whether through negotiations, legal proceedings or otherwise) of any of the rights of the Pledgee hereunder or (iv) the failure by any Pledgor to perform or observe any of the provisions hereof.

Section 18. **Currency**

(a) For the purpose of or pending the discharge of any of the Secured Obligations, the Pledgee may convert any monies received, recovered or realised or subject to application by the Pledgee under

this Agreement (including the proceeds of any previous conversion under this Section 18) from their existing currency of denomination into such other currency of denomination as the relevant Secured Obligation may be denominated (to the extent of any mismatch at such time, in the aggregate, between the currencies of such monies and the currencies in which the relevant Secured Obligations to be discharged are denominated), and any such conversion shall be effected at the Pledgee's then prevailing spot rate of exchange for obtaining such other currency with the existing currency.

(b) References herein to any currency extend to any funds of that currency and for the avoidance of doubt funds of one currency may be converted into different funds of the same currency.

Section 19. **Additional Pledgors**

(a) Subject to compliance with any provisions of Section 19(e) ("know your customer" checks), the Applicant may at any time request that any person become an Additional Pledgor. That person shall become an Additional Pledgor if:

(i) the Pledgee has received the following:

(1) a resolution of the board of directors (or its equivalent) from the Additional Pledgor approving the terms of the Accession Letter and resolving that it execute, deliver and perform the Accession Letter and authorising a specified person or persons to execute the Accession Letter and/or despatch all other documents and notices to be signed and/or despatched by it under or in connection with this Agreement;

(2) a Control Agreement Accession Letter duly completed and executed by such Additional Pledgor and the Applicant; and

(3) such other certificates, opinions and other documents that the Pledgee may reasonably request, each in form and substance reasonably satisfactory to the Pledgee; and

(ii) the Additional Pledgor delivers to the Pledgee a duly completed and executed Accession Letter.

(b) Upon satisfaction of the requirements set out in subsection (a) above, the Pledgee shall in its absolute discretion countersign and deliver the Accession Letter and the Control Agreement Accession Letter, and the Additional Pledgor shall be deemed from and after the date on which the Pledgee counter-signs the Accession Letter and Control Agreement Accession Letter to have assumed all rights and obligations under this Agreement as if it had been an Original Pledgor.

(c) Delivery of an Accession Letter by the Additional Pledgor will constitute confirmation by it that the representations set out in Section 6 (*Representations, Warranties and Covenants*) are true and correct in relation to it as at the date of delivery as if made by reference to the facts and circumstances then existing.

(d) For the avoidance of doubt, each existing Pledgor hereby agrees jointly and severally to indemnify the Pledgee for and against costs and expenses (including reasonable legal costs and expenses) that may be incurred by the Pledgee, in each case arising out of or in connection with the accession or potential accession of any Additional Pledgor to this Agreement, in accordance with the provisions of Section 17(a).

(e) Each Pledgor shall promptly comply and provide such information reasonably requested from time to time by the Pledgee to carry out any "know your customer" or other similar checks.

Section 20. **Resignation of a Pledgor**

(a) The Applicant may request that a Pledgor (a "***Resigning Pledgor***") cease to be a Pledgor by delivering to the Pledgee a Resignation Letter.

(b) The Pledgee shall (but may decline to do so if any of the conditions in paragraphs (i) - (iii) below are not met at that time) countersign and deliver a Resignation Letter and a Control Agreement Resignation Letter, and such Resigning Pledgor shall cease to be a Pledgor hereunder effective as of the date specified in the Resignation Letter, if:

(i) the Resigning Pledgor delivers to the Pledgee a duly completed and executed Resignation Letter and Control Agreement Resignation Letter, in each case countersigned by the Applicant;

(ii) no Event of Default is continuing or would result from the effectiveness of such resignation (and the Applicant has confirmed this is the case); and

(iii) as a result of the resignation, the aggregate Letter of Credit Value of the Collateral (which, to avoid doubt, shall not include any assets of the Resigning Pledgor) would not be less than the Required Account Value.

Section 21. **Release of Resigning Pledgor**

If a Resigning Pledgor ceases to be a Pledgor in accordance with the terms of this Agreement then on and as of the date such Resigning Pledgor ceases to be a Pledgor:

(a) that Resigning Pledgor is released by the Pledgee from any liability (whether past, present or future and whether actual or contingent) under this Agreement;

(b) each other Pledgor waives any rights it may have by reason of the performance of its Secured Obligations to take the benefit (in whole or in part and whether by way of subrogation or otherwise) of any rights of the Pledgee under this Agreement or of any other security taken pursuant to, or in connection with this Agreement, where such rights or security are granted by or in relation to the assets of the Resigning Pledgor;

(c) For the avoidance of doubt, each existing Pledgor hereby agrees jointly and severally to indemnify the Pledgee for and against costs and expenses (including reasonable legal costs and expenses) that may be incurred by the Pledgee, in each case arising out of or in connection with the actual or proposed resignation of any Pledgor, in accordance with the provisions of Section 17(a).

(d) the pledge and security interest granted under this Agreement by that Resigning Pledgor shall terminate and that Resigning Pledgor's Collateral shall be returned to that Resigning Pledgor;

(e) the Pledgee shall instruct the Securities Intermediary to transfer the Resigning Pledgor’s Collateral in accordance with the Resigning Pledgor’s instructions; and

(f) upon the request of any Pledgor, the Pledgee will, at the joint and several expense of the Pledgors, execute and deliver to that Pledgor such documents as that Pledgor shall reasonably request to evidence such termination.

Section 22. **Amendments; Waivers; Etc.** No amendment or waiver of any provision of this Agreement, and no consent to any departure by any party hereto, shall in any event be effective unless the same shall be in writing and signed by the Pledgee and the Applicant, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No failure on the part of any party hereto to exercise, and no delay in exercising any right hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right.

Section 23. **Addresses for Notices** All notices and other communications provided for hereunder shall be either (i) in writing (including facsimile communication) and mailed, transmitted or otherwise delivered or (ii) by electronic mail (if electronic mail addresses are designated as provided below) confirmed immediately in writing, in the case of the Pledgee, addressed to:

Citibank Europe Plc
1 North Wall Quay
Dublin 1
Ireland

Attention: Insurance Letter of Credit Department

Facsimile Number: +353 1622 1009

and, in the case of any Pledgor,

XL Group
Treasury Department
XL House
8 St. Stephen's Green
Dublin 2
Ireland

Attention: Vice President, Corporate Treasury

Facsimile Number: +353 1607 5333

or, as to any party, at such other address as shall be designated by such party in a written notice to the other parties. All such notices and other communications shall, when mailed, transmitted, sent by electronic mail or otherwise, be effective when deposited in the mails, sent by electronic mail and confirmed in writing, or otherwise delivered (or confirmed by a signed receipt), respectively, addressed as aforesaid; Delivery by facsimile or electronic transmission (i.e. "PDF" or "TIFF" files) of an executed counterpart of any amendment or waiver of any provision of this Agreement or of any Schedule hereto shall be effective as delivery of an original executed counterpart thereof.

Section 24. **Continuing Security Interest; Assignment** In relation to any Pledgor, this Agreement shall create a continuing security interest in that Pledgor's Collateral and shall (a) remain in full force and effect with respect to that Pledgor until the earlier of (i) the resignation of that Pledgor pursuant to the provisions hereof and (ii) the termination of this Agreement pursuant to Section 25 hereof, (b) be binding upon each Pledgor and the Pledgee and their respective successors and permitted assigns and (c) inure, together with the rights and remedies of the Pledgee, to the benefit of the Pledgee and its respective successors, permitted transferees and assigns. Without limiting the generality of the foregoing clause (c), the Pledgee may assign or otherwise transfer to any other Person all or any portion of its rights and obligations under this Agreement, and such other Person shall thereupon become vested with all the benefits in respect thereof granted to the Pledgee herein or otherwise; provided that such assignment or transfer is to a Permitted Transferee as defined under the terms of the Master Agreement to whom the Pledgee in its capacity as provider of Credits under the Master Agreement is making a contemporaneous assignment of its rights and obligations under the Master Agreement in accordance with the terms thereof. Each Pledgor will, at the expense of the Pledgee, make, execute, endorse, acknowledge, file and/or deliver to the Pledgee such confirmatory assignments, conveyances, transfer endorsements, powers of attorney, certificates, reports and other assurances or instruments and take such further steps related to that Pledgor's Collateral and other property or rights covered by the security interest hereby granted, which the Pledgee deems reasonably advisable to perfect, preserve or protect its security interest in that Pledgor's Collateral, including any actions which may be required or advisable as a result of any amendment or supplement to applicable laws, including the NYUCC.

Section 25. **Release and Termination** Except in relation to the prior resignation of any Resigning Pledgor in accordance with the terms of this Agreement, upon the later of (i) the payment in full in cash of the Secured Obligations and (ii) the termination of the Master Agreement, the pledge and security interest granted hereby shall terminate and all rights to any Pledgor's Collateral shall revert to the relevant Pledgor and the Pledgee shall instruct the Securities Intermediary to transfer the Pledgor’s Collateral in accordance with that Pledgor’s instructions. Upon any such termination, the Pledgee will, at the joint and several expense of the Pledgors, execute and deliver to that Pledgor such documents as that Pledgor shall reasonably request to evidence such termination.

Section 26. **Governing Law; Terms** This Agreement shall be governed by and construed in accordance with the laws of the State of New York (including Section 5-1401 of the General Obligations Law of said State, which is expressly made applicable hereto).

Section 27. **Jurisdiction, Venue**

(a) Each party hereto hereby irrevocably and unconditionally submits, for itself and its property, to the non-exclusive jurisdiction of any New York State or United States federal court (to the extent such court has subject matter jurisdiction) sitting in New York City and any appellate court from any such court in any action or proceeding arising out of or relating to this Agreement or for the recognition and enforcement of any judgment, and each party hereto hereby irrevocably and unconditionally agrees that all claims in respect of such action or proceeding may be heard and determined in any such New York State court or in such Federal court. Each party hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Each party hereto irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any New York State or federal court. Each party hereby irrevocably waives, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court. Each party irrevocably consents to the service of any and all process in any such action or proceeding by the mailing of copies of such process to such party at its address specified in Section 23.

(b) Nothing in this Section 27 shall affect the right of any party to serve legal process in any other manner permitted by applicable law or affect any right which any party would otherwise have to bring any action or proceeding against any other party or its property in the courts of any other jurisdiction.

SECTION 28. WAIVER OF JURY TRIAL. EACH PLEDGOR AND THE PLEDGEE HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREBY OR THE ACTIONS OF THE PLEDGEE IN THE NEGOTIATION, ADMINISTRATION, PERFORMANCE OR ENFORCEMENT HEREOF.

Section 29. **Execution in Counterparts** This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by facsimile or electronic transmission (i.e. “PDF” or “TIFF” files) shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 30. **Severability** If any term or provision of this Agreement is or shall become illegal, invalid or unenforceable in any jurisdiction, all other terms and provisions of this Agreement shall remain legal, valid and enforceable in such jurisdiction and such illegal, invalid or unenforceable provision shall be legal, valid and enforceable in any other jurisdiction.

Section 31. **Termination of Prior Agreement** The parties agree that any prior pledge agreement between any Pledgor and the Pledgee with respect to its Collateral is terminated as of the effective date of this Agreement. For the avoidance of doubt, any other pledge or security agreement relating to security other than the Collateral which has been entered into between any Pledgor or any of their affiliates and the Pledgee or any of its affiliates shall be unaffected by this Agreement and shall remain in full force and effect in accordance with the terms contained therein.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by its officer thereunto duly authorized as of the date first above written.

XL Insurance (Bermuda) Ltd

BY: /s/ C. Stanley Lee

Name: C. Stanley Lee
Title: SVP, Chief Financial Officer

XL Re Ltd

BY: /s/ Mark Twite

Name: Mark Twite
Title: Chief Financial Officer

Citibank Europe Plc
BY: /s/ Peadar Mac Canna

Name: Peadar Mac Canna
Title: Managing Director

SCHEDULE 1

Letter of Credit Value and Pledgee's Requirements

			Letter of Credit Value			
			Maturity (years)			Maximum %
	Qualifying Collateral	Rating	<5	5-10	11-20	of Total
1.	Cash Deposits held in the Account solely to the extent that such cash is proceeds of investment property held in the Account	N/A	N/A	N/A	N/A	100%
2.	OECD Government Bonds including agencies and agency RMBS backed by the full faith and credit of their respective OECD governments (eg Ginnie Mae, KFW, AGF etc)	AA- or better	95.0%	92.5%	90%	100%
3.	US and OECD Government Agencies and agency guaranteed RMBS not covered under 2 above	AA- or better	92.0%	92.0%	88.0%	100%
4.	Supranational Bonds	AA- or better	90.0%	90.0%	85.0%	100%
5.	Government Guaranteed Debt to include debt guaranteed by agencies carrying the full faith and credit of their respective OECD governments (eg SFEFR)	AA- or better	95.0%	92.5%	90.0%	100%
6.	Corporate Bonds	AA- or better	90.0%	90.0%	85.0%	25%

*Subject to further adjustment pursuant to the provisions set forth in Schedule 2.

NB. Debt issued by the Pledgor is not eligible and money market cash sweeps are not eligible.
No single corporate bond issuer is to be more than 10% of total.

SCHEDULE 2

Currency Margins

1. Where the Qualifying Collateral or a portion thereof is denominated in the same currency as a Credit (the "*Credit Currency*"), the Qualifying Collateral or such portion thereof shall have a value of 100% of its value in the relevant Credit Currency; and for this purpose the Pledgee shall notionally match each Credit with the Collateral or a portion thereof denominated in the relevant Credit Currency.

2. Where the Qualifying Collateral or a portion thereof is denominated in a currency other than the relative Credit Currency, both the Letter of Credit Value (or, where only a portion of the Qualifying Collateral is in the relative Credit Currency, the balance of the Letter of Credit Value remaining unmatched) and the Qualifying Collateral or such portion thereof shall be notionally converted into a common base currency (as the Pledgee may in its discretion determine); and following such notional conversion the Qualifying Collateral or such portion thereof shall suffer a deduction of the Relevant Percentage, to cover exchange movements that may from time to time affect the value of the underlying unmatched Qualifying Collateral or a portion thereof and the contingent obligations to which it relate.

3. The "*Relevant Percentage*" means:

   (a) where the Qualifying Collateral or a portion is denominated in U.S. dollars, Euro or English Pounds Sterling, 10% (For the avoidance of doubt, the margin of no more than 10% applies where there is a discrepancy between the Credit Currency and the currency of the Qualifying Collateral relating such to U.S. dollars, Euro or English Pound Sterling);

   (b) where the Qualifying Collateral or a portion thereof is denominated in Swiss Francs, Canadian dollars or Japanese yen, 15%; and

   (c) where the Qualifying Collateral or portion thereof is denominated in any other currency, 25%.

4. For the purposes of each notional conversion to be effected hereunder the provisions of Section 18(a) shall apply *mutatis mutandis*.

SCHEDULE 3

[RESERVED]

SCHEDULE 4

[RESERVED]

SCHEDULE 5

Form of Accession Letter

To: Citibank Europe Plc as Pledgee

From: {*Name of Additional Pledgor*}

Dated: { }

Dear Sirs

Pledge Agreement dated { ν } 2009 (as amended and in effect from time to time, the "Pledge Agreement") made between XL Insurance (Bermuda) Ltd and XL Re Ltd as pledgors and Citibank Europe Plc as pledgee

2. We refer to the Pledge Agreement. This is an Accession Letter. Terms defined in the Pledge Agreement have the same meaning in this Accession Letter unless given a different meaning in this Accession Letter.

   (a) We agree to become an Additional Pledgor and to be bound by the terms of the Pledge Agreement as an Additional Pledgor pursuant to Section 19 (*Additional Pledgors*) of the Pledge Agreement and we assume all rights and obligations under the Pledge Agreement (including, without limitation, the grant of security) as if we had been an Original Pledgor. {*Additional Pledgor*} is a [company][corporation][limited liability company] duly incorporated, validly existing and in good standing under the laws of [*name of relevant jurisdiction*] with company registration number { }.

   (b) We confirm that the representations set out in Section 6 of the Pledge Agreement (Representations, Warranties and Covenants) are true and correct with respect to {*Additional Pledgor*} at the date of delivery of this Accession Letter.

4. Our "Account" (as defined in the Pledge Agreement) is ___________________________ at ________________________.

5. {*Name of Additional Pledgor's*} administrative details are as follows:

   Address: [ν]

   Fax No: [ν]

   Email: [ν]

   Attention: [ν]

6. This Accession Letter shall be governed by and construed in accordance with the laws of the State of New York, including Section 5-1401 of the General Obligations Law of said State, which is expressly made applicable hereto.

7. This Accession Letter will take effect from the date falling on and after the date on which (if at all) the Pledgee has counter-signed this Accession Letter.

executed on behalf of
{insert name of additional pledgor}
as Additional Pledgor

(Sign) ………………………………………	*(Sign)* ………………………………………
Name: _______________	Name: _______________
Title: _______________	Title: _______________

executed on behalf of
XL Insurance (Bermuda) Ltd
as Applicant

(Sign) ………………………………………	*(Sign)* ………………………………………
Name: _______________	Name: _______________
Title: _______________	Title: _______________

We hereby consent to and countersign this Accession Letter as of {insert date}.

Citibank Europe Plc
as Pledgee

(Sign) ………………………………………	*(Sign)* ………………………………………
Name: _______________	Name: _______________
Title: _______________	Title: _______________

SCHEDULE 6

Form of Resignation Letter

To: Citibank Europe Plc (as Pledgee)

From: [*resigning Pledgor)*

XL Insurance (Bermuda) Ltd (as Applicant)

Dated: { }

Dear Sirs

Pledge Agreement dated { ν } 2009 (as amended and in effect from time to time, the "Pledge Agreement") made between XL Insurance (Bermuda) Ltd and XL Re Ltd, as pledgors, and Citibank Europe Plc as pledgee

1. We refer to the Pledge Agreement. This is a Resignation Letter. Terms defined in the Pledge Agreement have the same meaning in this Resignation Letter unless given a different meaning in this Resignation Letter.

2. Pursuant to Section 20 (*Resignation of a Pledgor*) of the Pledge Agreement, we request that [*resigning Pledgor*] be released from its obligations as a Pledgor under the Pledge Agreement.

3. We confirm that:

   (a) no Event of Default is continuing or would result from the effectiveness of this resignation; and

   (b) as a result of the resignation, the aggregate Letter of Credit Value of the Collateral (which, to avoid doubt, shall not include any assets of the resigning Pledgor) will not be less than the Required Account Value.

4. This Resignation Letter shall be governed and construed in accordance with the laws of the State of New York, including Section 5-1401 of the General Obligations Law of said State, which is expressly made applicable hereto.

5. This Resignation Letter will take effect from the date falling on and after the date on which (if at all) the Pledgee counter-signs this Resignation Letter.

executed on behalf of
{insert name of resigning pledgor}
as Resigning Pledgor

(Sign) ....
Name: _______________
Title: _______________

(Sign) ....
Name: _______________
Title: _______________

executed on behalf of
XL Insurance (Bermuda) Ltd
as Applicant

(Sign) ....
Name: _______________
Title: _______________

(Sign) ....
Name: _______________
Title: _______________

We hereby consent to and countersign this Resignation Letter as of {insert date}.

Citibank Europe Plc
as Pledgee

(Sign) ....
Name: _______________
Title: _______________

(Sign) ....
Name: _______________
Title: _______________

SCHEDULE 7

Account details

Name of Pledgor	Account Name & Number	IBAN Number
XL Insurance (Bermuda) Ltd	XLIB PIMCO EUR CITI2LOC XLJF0101072 (or when viewed on Mellon Workbench XLJF0101072)	N/A
XL Re Ltd	XLR NEAM USD TIPS CITI 2 XLRF01005702 (on when viewed on Mellon Workbench XLRF01005702)	N/A

EXHIBIT A

CERTAIN DEFINED TERMS

(a) Capitalized terms used herein shall have the respective meanings ascribed to them below:

"*Accession Letter*" means a document substantially in the form set out in Schedule 3 (*Form of Accession Letter*) and (as the context requires) duly executed by the parties thereto.

"*Additional Pledgor*" means any person which the Pledgee may approve from time to time as a pledgor and/or (as the context requires) who is the subject of a duly executed Accession Letter.

"*Applicant*" means XL Insurance (Bermuda) Ltd, a company organized and existing under the laws of Bermuda, whose address of its registered or principal office is at XL House, One Bermudiana Road, Hamilton HM08, Bermuda.

"*Business Day*" means a day (other than a Saturday or Sunday) on which the banks are generally open for business in London and Bermuda.

"Change of Control" is deemed to have occurred if in relation to any Pledgor:

(a) the Persons owning the Voting Interests of that Pledgor as of the date hereof shall cease to own 51% or more of the Voting Interests of that Pledgor; or

(b) Continuing Directors shall cease for any reason to constitute a majority of the board of directors of that Pledgor.

"*Collateral*" has the meaning specified therefor in Section 2 hereof.

"*Consolidated Net Worth*", with respect to any Person, means the consolidated stockholders' equity of such Person and its consolidated subsidiaries, determined in accordance with generally accepted accounting principles and practices in the United States of America.

"*Continuing Directors*" means, in relation to any Pledgor, the directors of that Pledgor on the date hereof and each other director if, in each case, such other director's nomination for election to that Pledgor's board of directors is recommended by at least a majority of the then Continuing Directors.

"*Control Agreement*" means the Collateral Account Control Agreement dated November 11, 2009 (as from time to time amended, varied, supplemented, novated or assigned) between the Pledgors, the Pledgee and the Securities Intermediary, pursuant to which the Securities Intermediary agrees to act as custodian to hold the Collateral upon the terms contained therein.

"*Control Agreement Accession Letter*" means an accession letter substantially in the form attached to the Control Agreement.

"*Control Agreement Resignation Letter*" means a resignation letter substantially in the form attached to the Control Agreement.

"*Disruption Event*" means either or both of:

(a) a material disruption to those payment or communications systems or to those financial markets which are, in each case, required to operate in order for payments

to be made in connection with this Agreement or the Master Agreement (or otherwise in order for the transactions contemplated by this Agreement or the Master Agreement to be carried out) which disruption is not caused by, and is beyond the control of, any of the parties; or

(b) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a party preventing that, or any other party:

(i) from performing its payment obligations under this Agreement or the Master Agreement; or

(ii) from communicating with other parties in accordance with the terms of this Agreement or the Master Agreement,

and which (in either such case) is not caused by, and is beyond the control of, the party whose operations are disrupted.

"*Entitlement Holder*" means a Person that (a) is an "*entitlement holder*" as defined in Section 8-102(a)(7) of the NYUCC (except in respect of a Book-entry Security); and (b) in respect of any book-entry Security, is an "entitlement holder" as defined in 31 C.F.R. 357.2 (or, as applicable to such book-entry Security, the corresponding Federal Book-Entry Regulations governing such book-entry Security) which, to the extent required or permitted by the Federal Book-Entry Regulations, is also an "entitlement holder" as defined in Section 8-102(a)(7) of the NYUCC.

"*Entitlement Order*" has the meaning set forth in Section 8-102(a)(8) of the NYUCC and shall include, without limitation, any notice or related instructions from the Pledgee directing the transfer or redemption of the Collateral or any part thereof.

"*Event of Default*" means:

(a) a failure by any Pledgor to pay on its due date any reimbursement amount payable pursuant to the Master Agreement, or within three Business Days of its due date any other amount payable pursuant to this Agreement or the Master Agreement, in each case at the place and in the currency in which it is expressed to be payable, unless the failure to pay is caused by:

(i) administrative or technical error; or

(ii) a Disruption Event; and

payment is made within two Business Days of its due date,

(b) any Pledgor does not comply with its obligations under sections 4(a) or 4(d) of this Agreement, or clause 1.2 of the Master Agreement is not satisfied, unless such failure is caused by:

(i) administrative or technical error; or

(ii) a Disruption Event; and

such obligation is complied with within two Business Days of the date required pursuant to such provisions,

(c) any Pledgor does not comply with its obligations under sections 4(e) or 11 of this Agreement,

(d) a failure by any Pledgor to comply with any provision of this Agreement or the Master Agreement (other than those referred to in paragraphs (a), (b) and (c) above), unless the failure to comply is capable of remedy and is remedied within ten Business Days of the earlier of (1) the Pledgee giving written notice thereof to the Applicant and (2) the relevant Pledgor becoming aware of the failure to comply.

(e) any representation or statement made or deemed to be made by any Pledgor under this Agreement or by the Applicant under the Master Agreement or in either case under any other document delivered by or on behalf of any Pledgor under or in connection with this Agreement or the Master Agreement is or proves to have been incorrect or misleading in any material respect when made or deemed to be made, unless such breach is capable of remedy and is remedied within ten Business Days of the earlier of (1) the Pledgee giving written notice thereof to the Applicant and (2) the relevant Pledgor becoming aware of such breach.

"*Federal Book-Entry Regulations*" means the federal regulations contained in Subpart B ("*Treasury/Reserve Automated Debt Entry System* (*TRADES*)" governing book-entry securities consisting of United States Treasury securities, U.S. Treasury bonds, notes and bills) and Subpart D ("*Additional Provisions*") of 31 C.F.R. Part 357, 31 C.F.R. " 357.10 through "357.14 and "357.41 through "357.44 (including related defined terms in 31 C.F.R. "357.2), as amended by regulations published at 61 Fed. Reg. 43626 (August 23, 1996) and as amended by an subsequent regulations.

"Letter of Credit Value" means

(a) in respect of each component of the Qualifying Collateral, (x) the market value of the Security or (y) the cash value, in each case

(i) subject to the provisions of Schedules 1 and 2 and

(ii) multiplied by the percentage specified in the table set out in Schedule 1 under the column headed "Letter of Credit Value" for that type of Security or for cash; and if at any time there is more than one component part to the Qualifying Collateral, the Letter of Credit Value for the Qualifying Collateral shall be the sum of the Letter of Credit values for each component part of the Qualifying Collateral; or

(b) such other amount calculated in such other manner as may be from time to time be agreed by the Pledgee and the Applicant.

"*Lien*" means any mortgage, pledge, attachment, lien, charge, claim, encumbrance, lease or security interest, easement, right of first or last refusal, right of first offer or other option or contingent purchase right.

"*Master Agreement*" means the agreement dated November 11, 2009 (as from time to time amended, varied, supplemented, novated or assigned) between the Applicant and the Pledgee, pursuant to which the Pledgee has established, maintained, amended, renewed or substituted or arranged for the establishment, maintenance, amendment, renewal or substitution of a Credit.

"*Net Worth Deficiency*" means that at any time, the Consolidated Net Worth of XL Group plc, a company organised and existing under the laws of the Republic of Ireland, and its subsidiaries on a consolidated basis, is less than US$3,000,000,000 (or its equivalent in other currencies).

"*NYUCC*" means the Uniform Commercial Code from time to time in effect in the State of New York.

"*Person*" means any individual, corporation, partnership, joint venture, foundation, association, joint-stock company, trust, unincorporated organization, government or any political subdivision thereof or any agency or instrumentality of any thereof.

"*Resignation Letter*" means a letter substantially in the form set out in Schedule 4 (*Form of Resignation Letter*);

"*Securities Intermediary*" means a Person that (a) is a "*securities intermediary*" as defined in Section 8-102(a)(14) of the NYUCC and (b) in respect of any U.S. Government Obligations, is also a "*securities intermediary*" as defined in 31 C.F.R. 357.2.

"*Secured Obligations*" has the meaning specified therefor in Section 3 hereof.

"*Security Control*" means "*control*" as defined in Section 8-106 of the NYUCC.

"*Security Entitlement*" means (a) security entitlement" as defined in Section 8-102(a)(17) of the NYUCC (except in respect of a U.S. Government Obligation); and (b) in respect of any U.S. Government Obligation, a "*security entitlement*" as defined in 31 C.F.R. 357.2 which, to the extent required or permitted by the Federal Book-Entry Regulations, is also *a "security entitlement*" as defined in Section 8-102(a)(17) of the NYUCC.

"*STRIPS*" has the meaning thereof set forth in Section 357.2 of the Federal Book-Entry Regulations.

"*U.S. Government Obligations*" means all of the United States Treasury securities (including STRIPS) maintained in the commercial book-entry system entitled Treasury/Reserve Automated Debt Entry System ("*TRADES*") pursuant to the Federal Book-Entry Regulations or pursuant to a successor system.

"*Voting Interests*" of any Person means shares of capital stock issued by a corporation, or equivalent equity interests in any other Person, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even if the right so to vote has been suspended by the happening of such a contingency.

(b) NYUCC Terms. Terms defined or referenced in the NYUCC and not otherwise defined or referenced herein are used herein as therein defined or referenced. In particular, the following terms are used herein as defined or referenced in the respective NYUCC sections indicated below: "*Deposit Account*": Section 9-102(a)(29); "*Entitlement Order*": Section 8-102(a)(8); "*Financial Asset*": Section 8-102(a)(9); "*Instrument*": Section 9-102(a)(47); "*Investment Property*": Section 9-102(a)(49); "*Proceeds*": Section 9-102(a)(64); "*Securities Account*": Section 8-501(a); "*Security*": Section 8-102(a)(15).

(c) Other Interpretive Provisions. As used herein, (i) references to specific sections, articles, annexes, schedules and exhibits are to this agreement; (ii) references to any agreement include amendments, restatements, modifications and supplements thereto in accordance with the terms hereof and thereof; (iii) references to any applicable law include amendments, supplements and successors thereto; (iv) references to any Person include such Person's successors and assigns (subject to any applicable restrictions on assignment by such Person hereunder or under the Master Agreement) and, in the case of any governmental authority, any Person succeeding to its functions and capacities; (v) words importing any gender include the other gender; (vi) the singular includes the plural and the plural includes the singular; and (vii) the words "including", "include" and "includes" shall be deemed to be followed by the words "without limitation".

Exhibit 10.48

Execution Copy

AGREEMENT AND RELEASE

This Agreement and Release ("Agreement") is entered into as of this 30th day of October, 2014 between XL Group plc, X.L. Global Services, Inc. (collectively, the "Company") and JAMES H. VEGHTE (the "Executive").

The Executive and the Company agree as follows:

1. Termination of Employment. The employment relationship between the Executive and the Company will continue until December 31, 2014 (the "Retirement Date"), at which time it shall cease. Effective on the Retirement Date or such earlier date requested in writing by the Company, the Executive will resign all officer positions with the Company and its Affiliates (as defined below) as well as his membership on all Boards of Directors and Committees of the Company and its Affiliates.

2. Payments and Benefits. In consideration for the covenants of the Executive and the release of claims by the Executive contained herein, and in full payment of all obligations of any nature or kind whatsoever owed or owing to the Executive by the Company and any of its Affiliates, the Company shall pay, or provide benefits to, the Executive as follows:

(a) the Company shall pay the Executive's base salary, at the rate in effect on the date hereof, through the Retirement Date in accordance with its normal payroll practices;

(b) provided the Executive executes this Agreement and, on December 31, 2014, further executes the general release of claims attached hereto as Exhibit A, and does not revoke that release prior to the end of the seven day statutory revocation period, the Company agrees:

(i) to provide that the Executive shall be eligible to receive an annual bonus for calendar year 2014 as determined by the Management Development and Compensation Committee (the "MDCC") of the Board of Directors of the Company in its discretion, and any such annual bonus shall be paid to the Executive in 2015 and, in no event later than March 15, 2015;

(ii) that stock options and performance restricted stock granted to the Executive under the Company's 1991 Performance Incentive Program (a complete list of which is attached hereto as Exhibit B) will receive "retirement" treatment as described in the applicable award agreements evidencing each grant in relation to vesting and exercisability following the Retirement Date, and the Executive agrees that he is not eligible to receive any award or payment by reason of his retirement under the 2012 XL Group plc Reinsurance Supplemental Long Term Incentive Program;

(iii) a portion of the Executive's Performance Units (included in Exhibit B) granted as of February 28, 2013 (the "2013 Award") and as of February 28, 2014 (the "2014 Award"), respectively, will vest equal to (i) the percentage of the Performance Units earned based upon the extent, if any, of attainment of the performance goals for each award of Performance Units (as determined by the MDCC) as measured at the end of calendar year 2014 with respect to the 2013 Award, and the end of calendar year 2016 with respect to the 2014 Award, multiplied by (ii) a fraction, the numerator of which is the number of days during the respective Performance Period applicable to each award ending on the Retirement Date and the denominator of which is the number of days in the full Performance Period for each such award. Shares of Company common stock equal to the number of such vested Performance Units as determined above will be distributed to the Executive (a) with respect to the 2013 Award, in 2015 on or before March 15, 2015, and (b) with respect to the 2014 Award, in 2017 on or before March 15, 2017;

(iv) Within fifteen (15) days of the Retirement Date, the Company will pay to Executive a lump sum amount of $72,000, the after-tax amount of which will represent the difference between (a) the monthly COBRA continuation premium rate payable by the Executive to extend Company coverage and (b) the monthly premium amount paid by similarly situated executives for active Company coverage, multiplied by 24, with which Executive may pay for COBRA continuation coverage, and

(v) the provisions in Section 3 below regarding consulting services and fees will apply;

(c) The Company agrees to provide that the Executive shall be reimbursed for business expenses reasonably incurred by him prior to the Retirement Date in accordance with the Company's expense reimbursement program; and

(d) The Company agrees that the Executive's vested accrued benefits under the Company's pension and deferred compensation plans shall be paid to the Executive in accordance with the terms of such plans.

3. Consulting Services. Provided the Executive executes this Agreement and, on December 31, 2014, further executes the general release of claims attached hereto as Exhibit A, and does not revoke that release prior to the end of the seven day statutory revocation period, the following provisions regarding consulting services and fees will apply.

(a) During the Consulting Term (as defined below), the Executive shall provide such consulting services to the Company commensurate with his status and experience as the former Chief Executive, Reinsurance Operations of the Company with respect to such matters as shall be reasonably requested from time to time by the Chief Executive Officer of the Company or his designee. Such services shall include services in connection with the Company's ongoing operations consistent with Company guidelines as set forth in Exhibit C attached hereto and/or in connection with the defense and/or investigation of any third party claim or any investigation or proceeding relating to the

Company or its Affiliates. The Company and the Executive intend that the Executive's services pursuant to this Agreement shall be no greater than 35 hours per month, which is less than 20% of the average level of services performed by the Executive over the last three years of his employment with the Company, during the period in the Consulting Term. The Executive shall not, by virtue of the consulting services provided hereunder, be considered an officer or employee of the Company, and he shall have no power or authority to contract in the name of or bind the Company or its Affiliates. As an independent contractor, the time, manner, mode, method and means used by the Executive in the performance of services shall be of the Executive's selection and under the sole control and direction of the Executive. The Executive shall be responsible for all risks incurred in the operation of the Executive's business and shall enjoy all the benefits thereof. In addition, the Executive will comply, at the Executive's own expense, with the provisions of all state, local, and federal laws, regulations, ordinances, requirements, and codes which are applicable to the performance of services hereunder.

(b) During the Consulting Term, in consideration of the services to be provided by the Executive to the Company described herein and in consideration for the covenants of the Executive set forth herein, provided the Executive has complied, and continues to comply, with the terms of this Agreement, the Company shall pay the Executive a fee (the "Consulting Fee") in the amount of $2,300,000.00, and payable in the following manner: $1,000,000.00 payable on January 15, 2015, and $1,300,000.00 on March 1, 2015. The Executive shall not be entitled to participate in any employee benefit plans maintained by the Company or any of its Affiliates by reason of his consulting services under this Agreement.

(c) The period during which the Executive will be retained by the Company to provide the consulting services hereunder shall commence on January 1, 2015 and shall terminate on June 30, 2015, unless sooner terminated as provided in this Section 3(c) (the "Consulting Term"). Notwithstanding the foregoing, the Consulting Term will end on the date of the Executive's death, and the Consulting Term may be terminated by the Company for Cause (as defined below). For purposes of this Agreement, the term "Cause" shall mean the Executive's (a) fraud or dishonesty in connection with the performance or provision by the Executive of his services under this Agreement, (b) material breach of any of the terms of this Agreement or (c) the Executive's conviction of, or plea of *nolo contendere* to, a felony. If the Consulting Term ends prior to June 30, 2015 due to the Executive's death, the Executive's estate shall remain entitled to receive the Consulting Fee in full, or, if already paid to the Executive, shall not be obligated to repay any prepaid portion of the Consulting Fee. In the event of termination of the Consulting Term by the Company for Cause, the Executive shall no longer be entitled to receive the Consulting Fee and, if already paid to the Executive, shall be required to return the full amount of the Consulting Fee to the Company.

(d) The Company shall reimburse the Executive for all reasonable expenses incurred by him in the course of performing his services under this Section 3 (which expenses are consistent with the Company's policies in effect from time to time with

respect to travel and other business expenses), subject to the Company's requirements with respect to reporting and documentation of expenses.

(e) The Executive agrees that, upon the expiration or termination of the Consulting Term, he will immediately return to the Company all materials containing or reflecting the Confidential Information (as defined below) and all copies, reproductions and summaries thereof, in his possession or under his control and shall erase all Confidential Information from all media in his possession or under his control, including, without limitation, all smartphones, iPads, or external storage devices, and, if the Company so requests, shall certify in writing that he has done so. All Confidential Information is and shall remain the property of the Company or its Affiliates, as the case may be. Executive will be permitted to retain his electronic or physical rolodex of personal contacts, and agrees to follow appropriate Company information security protocols related to that retention.

(f) The Company shall indemnify the Executive against expenses incurred and damages paid or payable by him with respect to claims based on actions or failures to act by the Executive in his capacity as a consultant under this Section 3, but not including expenses incurred or damages paid or payable by the Executive arising out of his gross negligence or willful misconduct.

(g) The Executive and the Company agree that the Executive is acting as an independent contractor to the Company for all purposes with regard to the performance of his services hereunder during the Consulting Term, including, without limitation, for US Federal (including social security and unemployment), state and local tax purposes. The Executive shall be solely responsible for fulfilling when due all Federal, state and local income tax and self-employment tax obligations arising in connection with his consultancy for the Company. Should the Company be required to pay any such tax or payment because Executive failed to pay any such taxes or payments, the Executive shall promptly reimburse the Company for such tax or payments, including any interest and penalties with respect thereto. Should it be determined that any payment hereunder is subject to withholding of tax under applicable law, all payments to be made hereunder shall be net of applicable income, employment, social security or other taxes required to be withheld therefrom.

4. No Additional Compensation. The Executive acknowledges and agrees that he is not entitled to any salary, bonuses, long-term or short-term incentive compensation or other compensation, payments, rights or benefits of any kind in respect of his employment with the Company and/or other positions with its Affiliates, or his retirement from such employment and/or other positions, or under any of the compensation or benefit plans of the Company or its Affiliates, except as provided by this Agreement or under any benefit or equity plan or arrangement or as indemnification or director and officers liability insurance coverage.

5. Release. In consideration of the above, the sufficiency of which the Executive hereby acknowledges, the Executive, on behalf of the Executive and the Executive's heirs, executors, administrators, representatives, agents and assigns (the "Releasors") hereby irrevocably and unconditionally releases and forever discharges the Company and its members, shareholders in their capacity related to the Company, parents, Affiliates, subsidiaries, divisions, any and all current and former directors, officers, employees, agents, and contractors (in their capacities

as such) and their heirs and assigns, and any and all employee pension benefit or welfare benefit plans of the Company or its Affiliates, including current and former trustees and administrators of such employee pension benefit and welfare benefit plans (collectively, the "Releasees"), from all claims, actions, causes of action, rights, judgments, obligations, damages, charges, accountings, demands or liabilities of whatever kind or character, in law or in equity, whether known or unknown, (collectively, the "Claims") which may have existed or which may now exist from the beginning of time to the date of this Agreement, including, without limitation, any Claims the Releasors may have arising from or relating to the Executive's employment, hiring or entering into employment or retirement from employment with the Company or its Affiliates or relating to the Employment Agreement among the parties hereto dated as of April 25, 2008, as amended (the "Employment Agreement") or any other agreement between the Executive and the Company or an Affiliate, and any Claims the Releasors may have under: the Civil Rights Act of 1964, as amended, and the Civil Rights Act of 1991 (which prohibit discrimination in employment based upon race, color, sex, religion and national origin); the Americans with Disabilities Act of 1990, as amended, and the Rehabilitation Act of 1973 (which prohibit discrimination based upon disability); the Family and Medical Leave Act of 1993 (which prohibits discrimination based on requesting or taking a family or medical leave); Section 1981 of the Civil Rights Act of 1866 (which prohibits discrimination based upon race); Section 1985(3) of the Civil Rights Act of 1871 (which prohibits conspiracies to discriminate); the Employee Retirement Income Security Act of 1974, as amended (which governs employee benefits); any other federal, state, local or foreign laws against discrimination; or any other federal, state, local or foreign statute, or common law relating to employment, wages, hours, or any other terms and conditions of employment. This includes a release by the Releasors of any Claims for wrongful discharge, breach of contract, torts or any other Claims in any way related to the Executive's employment with, hiring by or retirement from the Company or its Affiliates. This release also includes a release of any Claims for age discrimination under the Age Discrimination in Employment Act of 1967, as amended by the Older Workers' Benefit Protection Act and the applicable rules and regulations promulgated thereunder ("ADEA"). The ADEA requires that the Executive be advised to consult with an attorney before the Executive waives any claim under ADEA. In addition, the ADEA provides the Executive with at least twenty-one (21) days to decide whether to waive claims under ADEA and seven (7) days after the Executive signs the Agreement to revoke that waiver. This release does not release the Company from any obligations due to the Executive under this Agreement, and the Executive is not waiving any right of indemnification or rights of advancement of legal fees he may have under the Company's charter documents, the Deed Poll entered into by XL Group Ltd on July 1, 2010, applicable law or otherwise or the right to coverage under any directors & officers liability insurance maintained by the Company.

6. Covenant Not to Sue. The Executive understands that by signing this Agreement the Executive is prevented from filing, commencing or maintaining any action, complaint, or proceeding with regard to any of the Claims released hereby. However, nothing in this Agreement precludes the Executive from filing a charge with an administrative agency or from participating in an agency investigation to the extent such rights cannot be waived under applicable law. The Executive is, however, waiving his right to recover money in connection with any such charge or investigation. The Executive is also waiving his right to recover money in connection with a charge filed by any other individual or by the Equal Employment Opportunity Commission or any other federal or state agency. In addition to waiving and releasing the Claims covered by the

release of Claims above, the Executive promises not to sue any Releasee in any forum for any reason covered by the release of Claims set forth above, provided that the foregoing shall not apply to class actions provided the Executive opts out immediately when given the opportunity. This covenant by the Executive not to sue is different from the release of Claims, which will provide the Company a defense in the event the Executive violates the release of Claims. If the Executive violates this covenant not to sue by suing a Releasee, the Executive may be liable to that party for monetary damages. More specifically, if the Executive sues a Releasee in violation of this covenant not to sue, the Executive will be required to pay that Releasee's attorneys' fees and other costs incurred as a result of having to defend against the suit. However, nothing in this Agreement prevents the Executive from challenging the validity of the release set forth in Section 5 above solely as it relates to the ADEA. This Section shall not apply to any rights or claims that the Executive may have for a breach of this Agreement.

7. Consideration. The Executive understands and agrees that the consideration provided for herein is more than the Executive would otherwise be entitled to if he did not agree to the provisions of Section 5 above.

8. Waiver of Reinstatement. The Executive waives any right to reinstatement or future employment with the Company following the Executive's separation from the Company.

9. Nondisparagement. For twenty-four (24) months following the Retirement Date, (i) the Executive agrees not to make any disparaging statements about the Company, its Affiliates or their current or former officers, directors and/or employees, to anyone, including but not limited to the Company's customers, competitors, suppliers, employees, former employees or the press or other media and (ii) the Company agrees that it, officially, shall not make, and its directors, members of its Leadership Team or members of its Insurance Segment Executive Board shall not make, any disparaging statements about the Executive to anyone, except, in either case, if placed under legal compulsion to do so by a court or other governmental authority or such statements are normal competitive type statements or rebuttal of statements by others.

10. Restrictive Covenants.

(a) The Executive covenants that he shall not, without the prior written consent of the Company, use for the Executive's own benefit or the benefit of any other person or entity other than the Company and its Affiliates or disclose to any person any confidential, proprietary, secret or privileged information about the Company or its Affiliates or their business or operations, including, but not limited to, information concerning trade secrets, know-how, software, data processing systems, policy language and forms, inventions, designs, processes, formulae, notations, improvements, financial information, business plans, prospects, referral sources, lists of suppliers and customers, legal advice and other information with respect to the affairs, business, clients, customers, agents or other business relationships of the Company or its Affiliates ("Confidential Information"). The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret, confidential, proprietary or privileged information or data relating to the Company or any of its Affiliates or predecessor companies, and their respective businesses, which has or shall have been obtained by the Executive during his employment or during the Consulting Term, unless and until such information has become known to the public generally (other than as a

result of unauthorized disclosure by the Executive). The Executive shall not have any obligation to keep confidential any Confidential Information if and to the extent disclosure thereof is specifically required by court order or subpoena; provided, however, that in the event disclosure is so required, the Executive shall provide the Company with prompt notice, to the extent legally permitted to do so, of such requirement prior to making any disclosure so that the Company may seek an appropriate protective order.

(b) The foregoing covenant by the Executive shall be without limitation as to time and geographic application. The Executive acknowledges and agrees that he shall have no authority to waive any attorney-client or other privilege without the express prior written consent of the MDCC as evidenced by the signature of the Company's General Counsel.

(c) For the avoidance of doubt, all trademarks, policy language or forms, products or services (including products and services under development), trade names, trade secrets, service marks, designs, computer programs and software, utility models, copyrights, know-how and confidential information, applications for registration of any of the foregoing and the right to apply for them in any part of the world (whether any of the foregoing shall be registered or unregistered) created or discovered or participated in by the Executive during the course of his employment or under the instructions of the Company or its Affiliates are and shall be the absolute property of the Company and its Affiliates, as appropriate. Without limiting the foregoing, the Executive hereby assigns to the Company any and all of the Executive's right, title and interest, if any, pertaining to the insurance and reinsurance (including, without limitation, finite insurance and reinsurance), risk assumption, risk management, brokerage, financial and other products or services developed or improved upon by the Executive (including, without limitation, any related "know-how") while employed by the Company or its Affiliates or during the Consulting Term, including any patent, trademark, trade name, copyright, ownership or other right that may pertain thereto.

(d) Since the Executive has obtained in the course of the Executive's employment with the Company and its Affiliates, and is likely to obtain in the course of his consulting services hereunder, knowledge of trade names, trade secrets, know-how, products and services (including products and services under development), techniques, methods, lists, computer programs and software and other confidential information relating to the Company and its Affiliates, and their employees, clients, business or business opportunities, the Executive hereby undertakes that for the period from the date hereof through December 31, 2015 without the prior written consent of the Company:

(i) the Executive will not (either alone or jointly with or on behalf of others and whether directly or indirectly) encourage, entice, solicit or endeavor to encourage, entice or solicit away from employment with the Company or its Affiliates, or hire or cause to be hired, any officer, chief or senior underwriting, claims, actuarial or business development employee of the Insurance Segment or Reinsurance Segment of the Company or its Affiliates (or any individual who was within the prior twelve months such an officer or employee of the Company or its

Affiliates), or encourage, entice, solicit or endeavor to encourage, entice or solicit any such officer or employee to violate the terms of any employment agreement or arrangement between such individual and the Company or any of its Affiliates;

(ii) the Executive will not (either alone or jointly with or on behalf of others and whether directly or indirectly) interfere with or disrupt or seek to interfere with or disrupt (A) the relationships between the Company and its Affiliates, on the one hand, and any customer or client of the Company and its Affiliates, on the other hand, (including any insured or reinsured party) who during the period of twenty-four months immediately preceding the Retirement Date or during the Consulting Term shall have been such a customer or client, or (B) the supply to the Company and its Affiliates of any services by any supplier or agent or broker who during the period of twenty-four months immediately preceding the Retirement Date or during the Consulting Term shall have supplied services to any such person, nor will the Executive interfere or seek to interfere with the terms on which such supply or agency or brokering services during such period as aforesaid have been made or provided; and

(iii) the Executive will not (either alone or jointly with or on behalf of others and whether directly or indirectly) whether as an employee, consultant, partner, principal, agent, distributor, representative or stockholder (except solely as a less than one percent stockholder of a publicly traded company), engage in any activities in Bermuda, the United States or greater London if such activities are competitive with the businesses that (i) are then being conducted by the Company or its Affiliates and (ii) during the period of the Executive's employment or consultancy were either being conducted by the Company or its Affiliates or actively being developed by the Company or its Affiliates.

(e) For purposes of this Agreement, an "Affiliate" of the Company includes any person, directly or indirectly, through one or more intermediaries, controlling, controlled by, or under common control with the Company, and such term shall specifically include, without limitation, the Company's majority-owned subsidiaries.

(f) The limitations on the Executive set forth in this Section shall also apply to any agent or other representative acting on behalf of the Executive.

(g) While the restrictions aforesaid are considered by both parties to be reasonable in all the circumstances, it is recognized that restrictions of the nature in question may fail for reasons unforeseen and accordingly it is hereby declared and agreed that if any of such restrictions or the geographic, duration or other scope thereof shall be adjudged to be void as going beyond what is reasonable in the circumstances for the protection of the interests of the Company and its Affiliates but would be valid if part of the wording thereof were deleted and/or the periods (if any) thereof reduced and/or geographic or other area dealt with thereby reduced in scope then said restrictions shall apply with such modifications as may be necessary to make them valid and effective.

(h) The Executive acknowledges that the Company and its Affiliates will suffer irreparable injury, not readily susceptible of valuation in monetary damages, if the Executive breaches his obligations under Section 10 hereof. Accordingly, the Executive agrees that the Company and its Affiliates will be entitled, in addition to any other available remedies, to obtain injunctive relief against any breach or prospective breach by the Executive of his obligations under Section 10 hereof in any Federal or state court sitting in the City and State of New York or court sitting in Bermuda or the United Kingdom, or, at the Company's or any Affiliate's election, in any other jurisdiction in which the Executive maintains his residence or his principal place of business. The Executive hereby submits to the non-exclusive jurisdiction of all those courts for the purposes of any actions or proceedings instituted by the Company or its Affiliates to obtain such injunctive relief or otherwise enforce this Agreement, and the Executive agrees that process in any or all of those actions or proceedings may be served by registered mail or delivery, addressed to the last address of the Executive known to the Company or its Affiliates, or in any other manner authorized by law. The Executive further agrees that, in addition to any other remedies available to the Company or its Affiliates by operation of law or otherwise, because of any material breach by the Executive of his obligations under Section 10 hereof he will forfeit any and all rights to any payments, distributions or benefits to which he might otherwise then be entitled by virtue of this Agreement and such payments, distributions or benefits may be suspended so long as any good faith dispute with respect thereto is continuing.

11. Indemnification. The Executive shall be provided indemnification by the Company to the maximum extent permitted by applicable law and its charter documents against expenses incurred and damages paid or payable by the Executive with respect to claims based on actions or failures to act by the Executive in his capacity as an officer, director or employee of the Company or its Affiliates on in any other capacity, including any fiduciary capacity, in which the Executive served at the request of the Company or an Affiliate. In addition, he shall be covered by a directors & officers liability policy with coverage for all directors and officers of the Company in an amount equal to at least US$75,000,000. Such directors & officers liability insurance shall be maintained in effect for a period of six years following the Retirement Date. The indemnification in this Section is in addition to, and not in lieu of, any indemnification or insurance rights that exist at law or pursuant to the Company's charter documents, employee benefit plans or the Deed Poll executed by XL Group Ltd on July 1, 2010.

12. Return of Property. On or before the Retirement Date (or such other date specified by the Company in a written notice to the Executive), the Executive shall return all property of the Company and its Affiliates in the Executive's possession or control, including, but not limited to, the Company's credit, telephone, identification and similar cards, keys, cellular phones, computer equipment, software and peripherals and originals and copies of books, records, and other information pertaining to the business of the Company or its Affiliates. Executive will be permitted to retain his electronic or physical rolodex of personal contacts, and agrees to follow appropriate Company information security protocols related to that retention.

13. Cooperation. The Executive shall, at the request of the Company, reasonably cooperate with the Company in the defense and/or investigation of any third party claim, dispute or any investigation or proceeding, whether actual or threatened, including, without limitation,

meeting with attorneys and/or other representatives of the Company to provide reasonably requested information regarding same and/or participating as a witness in any litigation, arbitration, hearing or other proceeding between the Company or an Affiliate and a third party or any government body with regard to matters related to Executive's employment period with the Company. The Company shall reimburse the Executive for all reasonable expenses and costs incurred by him in connection with such assistance including, without limitation, reasonable travel expenses.

14. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of New York, without reference to the principles of conflict of laws thereof.

15. Withholding. The Company may withhold from any amounts payable under this Agreement such federal, state, local or foreign taxes as shall be required to be withheld therefrom pursuant to any applicable law or regulation.

16. Entire Agreement. This Agreement represents the complete agreement between the Executive and the Company concerning the subject matter in this Agreement and supersedes all prior agreements or understandings, written or oral, including the Employment Agreement. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

17. Severability. Each of the sections contained in this Agreement shall be enforceable independently of every other section in this Agreement, and the invalidity or nonenforceability of any section shall not invalidate or render unenforceable any other section contained in this Agreement.

18. Rescission. For a period of seven (7) days following the execution of this Agreement, the Executive may revoke the release of Claims under Section 5 of this Agreement, and such release shall not become effective or enforceable, and the Company shall have no obligations under this Agreement, until the revocation period has expired. Any such revocation must be effected by delivery of a written notification of revocation of the Agreement to the Associate General Counsel, Global Labor & Employment Matters of the Company prior to the end of such seven (7) day revocation period. In the event that the Agreement is revoked by the Executive, the Company shall have no obligations under the Agreement, no amounts will be payable to the Executive under this Agreement, and the Agreement shall be deemed to be void ab initio and of no further force or effect.

19. Voluntary Agreement. This Agreement has been entered into voluntarily and not as a result of coercion, duress, or undue influence. The Executive acknowledges that he has read and fully understands the terms of this Agreement and has been advised to consult with, and has consulted with, an attorney before executing this Agreement. Additionally, the Executive acknowledges that he has been afforded the opportunity of at least 21 days to consider this Agreement.

20. Successors. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company. No rights or obligations of the Executive under this

Agreement may be assigned or transferred by him. No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company except that such rights or obligations may be assigned or transferred pursuant to a merger or consolidation or amalgamation or scheme of arrangement in which the Company is not the continuing entity, or the sale or liquidations of all or substantially all of the assets of the Company, provided that the assignee or transferee is the successor to all or substantially all of the assets of the Company and such assignee or transferee assumes by operation of law or in writing duly executed by the assignee or transferee all of the liabilities, obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law.

21. Executive's Heirs. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal and legal representatives, executors, administrators, heirs, distributees, devisees and legatees. If the Executive dies while any amounts are still payable to him hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's devisee, legatee, or other designee or, if there be no such designee, to the Executive's estate.

22. 409A. It is intended that this Agreement will comply with, or be exempt from, Sections 409A and 457A of the Internal Revenue Code of 1986, as amended (the "Code") and any regulations and guidelines issued thereunder, to the extent the Agreement is subject thereto, and the Agreement shall be interpreted on a basis consistent with such intent. Except in the event of the Company's failure to comply with its obligations, the Company shall not have any obligation to indemnify or otherwise protect the Executive from any obligation to pay any taxes pursuant to Sections 409A or 457A of the Code. With respect to any reimbursement or in-kind benefit arrangements of the Company and its subsidiaries that constitute deferred compensation for purposes of Section 409A, except as otherwise permitted by Section 409A, the following conditions shall be applicable: (i) the amount eligible for reimbursement, or in-kind benefits provided, under any such arrangement in one calendar year may not affect the amount eligible for reimbursement, or in-kind benefits to be provided, under such arrangement in any other calendar year (except that the health and dental plans may impose a limit on the amount that may be reimbursed or paid), (ii) any reimbursement must be made on or before the last day of the calendar year following the calendar year in which the expense was incurred, and (iii) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit. Whenever payments under this Agreement are to be made in installments, each such installment shall be deemed to be a separate payment for purposes of Section 409A.

23. Guarantee. Each of XL Insurance Ltd and XL Re Ltd (together, the "Guarantors") hereby agrees to be jointly and severally liable together with the Company, for the performance of all obligations and duties, and the payment of all amounts, due to the Executive under this Agreement. In case of the failure of the Company to punctually pay any of the amounts necessary to satisfy the obligations, the Guarantor shall cause such amounts to be paid punctually when and as the same shall become due and payable as if such payment were made by the Company. This is a guaranty of payment and not collection.

24. Notice. Any notice required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given when delivered personally or sent by

courier, or by certified or registered mail, postage prepaid, return receipt requested, duly addressed to the party concerned at the address indicated below or to such changed address as such party may subsequently by similar process give notice of:

If to the Company:

XL Group plc
No. 8 St. Stephen's Green
Dublin 2, Ireland
Att'n: General Counsel

If to the Executive:

To the last address delivered to
the Company by the Executive in
the manner set forth herein.

25. Counterparts. This Agreement may be executed and delivered (including by facsimile transmission) in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed and delivered shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

Remainder of page intentionally left blank

The parties to this Agreement have executed this Agreement as of the day and year first written above.

XL GROUP PLC

By: /s/ Eileen G. Whelley
Name: Eileen G. Whelley
Title: EVP, CHRO

XL GLOBAL SERVICES, INC.

By: /s/ Eileen G. Whelley
Name: Eileen G. Whelley
Title: EVP, CHRO

EXECUTIVE

/s/ James H. Veghte

GUARANTORS:

XL INSURANCE (BERMUDA) LTD

By: /s/ Kim Wilkerson
Name: Kim Wilkerson
Title: General Counsel, Assistant Secretary

XL RE LTD

By: /s/ Kim Wilkerson
Name: Kim Wilkerson
Title: Assistant Secretary

Exhibit A

General Release

This General Release ("Release") is executed on this 31st day of December, 2014, by James H. Veghte (the "Executive") pursuant to the Agreement and Release between XL Group plc, X.L. Global Services, Inc. (collectively, the "Company") and the Executive (the "Agreement").

1. As a condition to, and in consideration for, the payments set forth in the Agreement, the Executive, on behalf of the Executive and the Executive's heirs, executors, administrators, representatives, agents and assigns (the "Releasors") hereby irrevocably and unconditionally releases and forever discharges the Company and its members, shareholders, parents, Affiliates, subsidiaries, divisions, any and all current and former directors, officers, employees, agents, and contractors (in their capacities as such) and their heirs and assigns, and any and all employee pension benefit or welfare benefit plans of the Company or its Affiliates (as defined in the Agreement), including current and former trustees and administrators of such employee pension benefit and welfare benefit plans (collectively, the "Releasees"), from all claims, actions, causes of action, rights, judgments, obligations, damages, charges, accountings, demands or liabilities of whatever kind or character, in law or in equity, whether known or unknown, (collectively, the "Claims") which may have existed or which may now exist from the beginning of time to the date of this Agreement, including, without limitation, any Claims the Releasors may have arising from or relating to the Executive's employment, hiring or entering into employment or retirement from employment with the Company or its Affiliates or relating to the Employment Agreement (as defined in the Agreement) or any other agreement between the Executive and the Company or an Affiliate, and any Claims the Releasors may have under: the Civil Rights Act of 1964, as amended, and the Civil Rights Act of 1991 (which prohibit discrimination in employment based upon race, color, sex, religion and national origin); the Americans with Disabilities Act of 1990, as amended, and the Rehabilitation Act of 1973 (which prohibit discrimination based upon disability); the Family and Medical Leave Act of 1993 (which prohibits discrimination based on requesting or taking a family or medical leave); Section 1981 of the Civil Rights Act of 1866 (which prohibits discrimination based upon race); Section 1985(3) of the Civil Rights Act of 1871 (which prohibits conspiracies to discriminate); the Employee Retirement Income Security Act of 1974, as amended (which governs employee benefits); any other federal, state, local or foreign laws against discrimination; or any other federal, state, local or foreign statute, or common law relating to employment, wages, hours, or any other terms and conditions of employment. This includes a release by the Releasors of any Claims for wrongful discharge, breach of contract, torts or any other Claims in any way related to the Executive's employment with, hiring by or retirement from the Company or its Affiliates. This release also includes a release of any Claims for age discrimination under the Age Discrimination in Employment Act of 1967, as amended by the Older Workers' Benefit Protection Act and the applicable rules and regulations promulgated thereunder ("ADEA"). The ADEA requires that the Executive be advised to consult with an attorney before the Executive waives any claim under ADEA. In addition, the ADEA provides the Executive with at least twenty-one (21) days to decide whether to waive claims under ADEA and seven (7) days after the Executive signs the Agreement to revoke that waiver. This release does not release the Company from any obligations due to the Executive under the Agreement, and the Executive is not waiving any right of indemnification or rights to advancement of legal fees he may have under the Company's charter documents, the Deed Poll executed by XL Group Ltd on July 1, 2010, applicable law or otherwise or the right to coverage under any directors & officers liability insurance maintained by the Company.

2. The Executive understands that by signing this Release the Executive is prevented from filing, commencing or maintaining any action, complaint, or proceeding with regard to any of the Claims released hereby. However, nothing in this Agreement precludes the Executive from filing a charge with an administrative agency or from participating in an agency investigation to the extent such rights cannot be waived under applicable law. The Executive is, however, waiving his right to recover money in connection with any such charge or investigation. The Executive is also waiving his right to recover money in connection with a charge filed by any other individual or by the Equal Employment Opportunity Commission or any other federal or state agency. In addition to waiving and releasing the Claims covered by the release of Claims above, the Executive promises not to sue any Releasee in any forum for any reason covered by the release of Claims set forth above, provided that the foregoing shall not apply to class actions provided Executive opts out immediately when given the opportunity. This covenant by the Executive not to sue is different from the release of Claims, which will provide the Company a defense in the event the Executive violates the release of Claims. If the Executive violates this covenant not to sue by suing a Releasee, the Executive may be liable to that party for monetary damages. More specifically, if the Executive sues a Releasee in violation of this covenant not to sue, the Executive will be required to pay that Releasee's attorneys' fees and other costs incurred as a result of having to defend against the suit. However, nothing in this Release prevents the Executive from challenging the validity of the release solely as it relates to the ADEA. This Section shall not apply to any rights or claims that the Executive may have for a breach of the Agreement.

3. This Release has been entered into voluntarily and not as a result of coercion, duress, or undue influence. The Executive acknowledges that he has read and fully understands the terms of this Release and has been advised to consult with, and has consulted with, an attorney before executing this Release. Additionally, the Executive acknowledges that he has been afforded the opportunity of at least 21 days to consider this Release.

4. For a period of seven (7) days following the execution of this Release, the Executive may revoke this Release, and this Release shall not become effective or enforceable, and the Company shall have no obligations under the Agreement, until the revocation period has expired. Any such revocation must be effected by delivery of a written notification of revocation of the Agreement to the Associate General Counsel, Global Labor & Employment Matters of the Company prior to the end of such seven (7) day revocation period. In the event that the Release is revoked by the Executive, the Company shall have no obligations under the Agreement, no amount will be payable to the Executive under the Agreement, and the Agreement shall be deemed to be void ab initio and of no further force or effect.

5. This Release shall be governed by and construed in accordance with the laws of New York, without reference to the principles of conflict of laws thereof.

IN WITNESS WHEREOF, the undersigned has duly executed this Release on the date first written above.

/s/ James H. Veghte
James H. Veghte

Exhibit B

Stock Options

Grant Date	Shares Subject to Option	Option Price	Expiration Date
3/04/2005	30,000	$75.48	3/4/2015
2/21/2008	77,500	$36.90	2/21/2018
8/11/2008	100,000	$19.62	8/11/2018
2/28/2010	122,087	$18.27	2/28/2020
2/28/2011	112,821	$23.35	2/28/2021
2/28/2012	147,850	$20.61	2/28/2022
2/28/2013	116,307	$28.64	2/28/2023
2/28/2014	112,791	$30.40	2/28/2024

Performance Restricted Shares

Grant Date	Unvested Shares (Vest on Retirement Date)
03/10/2007	2,000
02/28/2008	6,250

Performance Units

Grant Date	Target Units at Grant	Proration Factor*	Prorated Target Units at Term**
02/28/2013	33,869	66.6%	22,548
02/28/2014	31,908	33.2%	10,599

* Proration factor calculated as the number of active service days within the applicable three year cycle divided by the number of actual days within the three year performance cycle.

** Prorated Target Units for each performance unit award will be adjusted for actual performance through, in the case of the 2013 Award, the 2014 fiscal year end and, in the case of the 2014 Award, the 2016 fiscal year end, and any earned shares shall be delivered to the participant's brokerage account at Merrill Lynch by March 15, 2015 with respect to the 2013 Award and by March 15, 2017 with respect to the 2014 Award.

Exhibit C

Scope of Services

It is expected, that in the course of Mr. Veghte's Consulting Term that, as a representative of XL Group, he will:

- Act as a senior advisor to XL's Chief Executive Officer on key Reinsurance business matters including, but not limited to, potential acquisitions, and the addition of new business lines.
- Maintain key broker relationships and work to ensure a transition plan for key contacts to a new internal resource.
- Provide assistance with regulatory agencies.
- Attend and represent XL at key industry events as needed and requested by the Reinsurance CE and/or XL's Chief Executive Officer.

Exhibit 10.49

XL GROUP PLC
EXECUTIVE SEVERANCE BENEFIT PLAN

1. Purpose

The purpose of the XL Group plc Executive Severance Benefit Plan (the "Plan") is to assist executives covered by the Plan in occupational transition by providing severance pay to them under the terms, and subject to the conditions, set forth in the Plan.

2. Effective Date and Exclusivity of Plan

The Plan will become effective on December 11, 2014. Any termination of employment of a Covered Employee (as defined in Section 3 below) with a termination date during the period this Plan is in effect shall be governed exclusively by the terms of this Plan and by no other plan, policy, practice or arrangement. All capitalized terms not specifically defined in the text of this Plan will have the meanings set forth in Schedule A hereto.

3. Covered Employees

A person will be a Covered Employee under this Plan if, on the person's termination date, the person is an employee of XL Group plc or one of its subsidiaries (collectively, the "Company") who is a senior executive of the Company whom the Plan Administrator has designated by resolution or otherwise in writing as a participant in the Plan. The Plan Administrator will require, as a condition to participation in the Plan, that a Covered Employee execute a Participant Agreement, which will include certain restrictive covenants, in such form as determined by the Plan Administrator.

4. Severance Pay Upon Termination of Employment

A Covered Employee will be eligible to receive severance benefits under this Section 4 if (i) the Company terminates the Covered Employee's employment other than in an Ineligible Termination, or (ii) the Covered Employee terminates his or her employment for Good Reason. In that event, provided the Covered Employee executes and delivers to the Company (and does not revoke) a Separation and Release Agreement as described in Section 9 below, the Covered Employee will receive (x) a cash severance payment equal to the sum of the Covered Employee's annual base salary plus his or her target annual bonus in effect at the termination date, and (y) a pro-rata portion (based on the Covered Employee's actual service in a fiscal year) of Covered Employee's annual cash bonus as determined by the CEO and approved by the Management Development & Compensation Committee of the XL Group plc Board ("MDCC"), payable to the Covered Employee at the same time bonuses are paid to active employees generally for the applicable fiscal year. The severance payment under clause (x) of this Section 4 will

be paid in a lump sum within 60 days after the termination date. In addition, if such conditions are met, the Covered Employee will receive any unpaid annual bonus approved by the MDCC for the Covered Employee for the calendar year ending prior to the date of such termination, which shall be paid to the Covered Employee at the time such annual bonuses are otherwise paid to active employees.

5. Severance Pay in the Event of a Change in Control

In the event a Change in Control occurs, and, within the two-year period following such Change in Control, the Covered Employee's employment is terminated (i) by the Company for any reason other than for Cause, death of the Covered Employee or total disability that results in the Covered Employee qualifying for benefits under the Company's Long Term Disability Plan, or (ii) by the Covered Employee for CIC Good Reason, then, in lieu of the payments provided for in Section 4 above, but subject to the Covered Employee entering into (and not revoking) a Separation and Release Agreement, as described in Section 9 below, the Covered Employee will receive (x) a cash severance payment equal to two times the sum of the Covered Employee's annual base salary plus his or her target annual bonus in effect at the termination date, and (y) a pro-rata portion (based on the Covered Employee's actual service in a fiscal year) of Covered Employee's annual cash bonus as determined by the CEO and approved by the MDCC, payable to the Covered Employee at the same time bonuses are paid to active employees generally for the applicable fiscal year. Any severance payment under clause (x) of this Section 5 shall be paid in a lump sum within 60 days after the termination date. In addition, if such conditions are met, the Covered Employee will receive any unpaid annual bonus approved by the MDCC for the Covered Employee for the calendar year ending prior to the date of such termination which shall be paid to the Covered Employee at the time such annual bonuses are otherwise paid to active employees.

6. Additional Payments

In addition to any severance benefits under this Plan, the Covered Employee will also receive any base salary earned, but unpaid, for services rendered to the Company on or prior to the termination date, plus any paid time off accrued but unused as of such date, which payments shall be made within 30 days after the termination date, whether or not the Covered Employee executes and delivers to the Company (and does not revoke) a Separation and Release Agreement. The Covered Employee shall also continue to receive any vested accrued benefits under Company welfare, 401(k) or deferred compensation plans in which he or she is a participant on the termination date in accordance with the terms of the applicable plan.

7. Employee Benefit Plan Coverage Payment

If the Covered Employee receives severance pay under Section 4 or Section 5, then, provided that the following provision is not deemed discriminatory under applicable law, the Company will pay an amount to the Covered Employee equal to the excess of (i) the amount that the Covered Employee would be required to pay for COBRA continuation

coverage for 12 months after the termination date for the Covered Employee and his or her eligible dependents under the medical benefit plan of the Company or its affiliates in which the Covered Employee and such dependents were participating as of the termination date as in effect at such time, over (ii) the amount that he or she would pay for such coverage if the Covered Employee were still in the employ of the Company. Such payment shall be made in a lump sum within 60 days after the termination date.

8. Treatment of Long Term Incentives

The timing of the payment and/or vesting of any outstanding unvested or unpaid long term incentives, including equity-based incentive awards, will be as set forth in the applicable long term incentive plan or the applicable award agreement under such plan.

9. Separation and Release Agreement

As a condition for the payment of any severance benefits under this Plan, a Covered Employee must accept the terms of a separation agreement, including but not limited to a release of all claims that he or she may have against the Company, the Company's directors, officers, employees and employee benefit plans (the "Separation and Release Agreement"). The post-termination restrictive covenants in the Separation and Release Agreement shall be consistent with the post-termination restrictive covenants in the Participation Agreement for the Covered Employee, and the Separation and Release Agreement will not require the Covered Employee to release (i) any right to indemnification by the Company under the Company by-laws or charter or any agreement between the Covered Employee and the Company, or (ii) any rights as an insured under any director's and officer's liability insurance policy. In no event shall the terms and conditions of a Separation and Release Agreement required following a Change in Control be significantly less favorable to the Covered Employee than the terms and conditions of the form of Separation and Release Agreement customarily used by the Company prior to the Change in Control, except that any post-termination covenants applicable after a Change in Control shall be consistent with the post-Change in Control covenants in the Participation Agreement for the Covered Employee. Covered Employees have no right to receive severance benefits until they sign the Separation and Release Agreement and the expiration of any revocation period occurs. A Covered Employee must sign and return the Separation and Release Agreement no later than the date specified in that Agreement.

10. Sale or Divestiture

If a business or function of the Company in which the Covered Employee is employed is sold or divested (which, for the avoidance of doubt, will not include any internal reorganization, restructuring or redomestication) in a transaction that does not qualify as a Change in Control under Section 5 hereof, the Covered Employee is eligible to receive severance benefits under Section 4 of this Plan if, at the time of the transaction, the Covered Employee's employment with the Company terminates as a result of the

transaction; provided that the Covered Employee will not be eligible to receive severance benefits under this Plan if any of the following apply:

(1) the Covered Employee is offered a "Comparable Position" (as defined in Schedule A) with the Company, the acquirer or the divested business or function;

(2) the Covered Employee declines an interview or an invitation to apply for a Comparable Position with the Company, the acquirer or the divested business or function;

(3) the Covered Employee accepts any position with the Company, the acquirer or the divested business or function; or

(4) the Covered Employee is otherwise ineligible for severance pay because the termination is an Ineligible Termination or because he or she failed to execute and deliver to the Company (and not revoke) a Separation and Release Agreement as described in Section 9 above.

If the Covered Employee continues employment with the Company or is hired on or immediately following the termination date by the acquirer or the divested business or function, then severance payments will not be provided under this Plan.

11. Section 280G

Notwithstanding any other provision of this Plan, in the event that the amount of payments or other benefits payable to a Covered Employee under this Plan, together with any payments, awards or benefits payable under any other plan, program, arrangement or agreement maintained by the Company or one of its Affiliates (including, without limitation, the acceleration of any payment or the accelerated vesting of any payment or other benefit), would constitute an "excess parachute payment" (within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code")), the payments under Section 4 or Section 5, as applicable, and under Section 7 of this Plan shall be reduced (by the minimum possible amounts) until no amount payable to the Covered Employee constitutes an "excess parachute payment" (within the meaning of Section 280G of the Code); provided, however, that no such reduction shall be made if the net after-tax payment (after taking into account federal, state, local or other income, employment and excise taxes) to which the Covered Employee would otherwise be entitled without such reduction would be greater than the net after-tax payment (after taking into account federal, state, local or other income, employment and excise taxes) to the Covered Employee resulting from the receipt of such payments with such reduction.

All determinations required to be made under this Section 11, including whether a payment would result in an "excess parachute payment" and the assumptions to be utilized in arriving at such determinations, shall be made by an accounting firm designated by the Company (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Covered Employee as requested by the Company or the Covered Employee. All fees and expenses of the Accounting Firm shall be borne solely by the Company and shall be paid by the Company. Absent manifest error, all determinations made by the Accounting Firm under this Section 11 shall be final and binding upon the Company and the Covered Employee.

12. Clawback/Offset

If, prior to a Change in Control, the Company determines that the Covered Employee has taken action, or failed to act, in a manner which is materially detrimental to the best interests of the Company, including a breach by the Covered Employee of any of the terms of a Participation Agreement or Separation and Release Agreement, the Company may, in its sole discretion, not pay any amount which has not then been paid to the Covered Employee from this Plan and, in addition, may recover or "clawback" any amount which has already been paid to the Covered Employee in accordance with this Plan. Additionally, prior to a Change in Control, any severance pay payable to the Covered Employee under this Plan shall, to the extent not in violation of Section 409A of the Code, be offset by reducing such severance pay by any amount that the Covered Employee owes to the Company, including but not limited to any amounts owed as a result of overpayments of disability benefits, wages, bonuses or incentive compensation. Moreover, prior to a Change in Control, any severance pay otherwise due to a Covered Employee may, to the extent not in violation of Section 409A of the Code, be offset by any reasonable costs incurred by the Company in connection with its recovery of any sums for which the Covered Employee is personally responsible.

13. Administration of Plan

The Plan will be administered by the Company, subject to oversight by the MDCC. The Plan Administrator may delegate its administrative authority under the Plan to one or more officers of the Company.

The Plan Administrator will have the exclusive right, in its discretion, to interpret the Plan, adopt any rules and regulations for carrying out the Plan as may be appropriate and decide any and all matters arising under the Plan. All interpretations and decisions by the Plan Administrator shall be final, conclusive and binding on all parties affected thereby. Notwithstanding the foregoing, following a Change in Control all interpretations of the Plan shall be subject to de novo review as provided in Section 16(A) below.

14. Termination or Amendment

Amendments to the Plan shall be made by the MDCC; provided, however, that the Company's Chief Human Resources Officer is authorized to adopt administrative

amendments to the Plan which do not affect the eligibility of any Employee to receive benefits under the Plan or the amount or timing of benefits payable under the Plan, and to make ministerial editorial and typographical corrections to the Plan document as may be required. The MDCC reserves the right, in its sole discretion, to terminate, suspend, amend or modify this Plan in whole or in part at any time without prior notice; provided, however, that, notwithstanding anything in this Plan to the contrary, the Plan shall not be amended, modified, suspended or terminated following a Change in Control or during a Potential Change in Control Period (as defined below), except that the Plan Administrator may amend the Plan during a Potential Change in Control Period or following a Change in Control, or at any other time, in such manner as the Plan Administrator deems necessary or advisable, in his or her reasonable judgment, (i) to comply with a change in law or to avoid any payments hereunder being subject to an additional tax under Section 409A of the Code, or (ii) so long as such amendment does not adversely affect (A) the eligibility of any Covered Employee to receive benefits hereunder or (B) the amount or type of benefits that might become, or the time at which such benefits would be, payable hereunder to any Covered Employee. For purposes of this Section, a Potential Change in Control Period shall begin on the date of any "Potential Change in Control" (as defined in Schedule A), and end upon the earlier of (i) the second anniversary of the date of such Potential Change in Control, (ii) the date a Change in Control occurs, or (iii) the date the MDCC determines in good faith that the tender offer, agreement, proxy solicitation or other event constituting the Potential Change in Control has been terminated or otherwise will not result in a Change in Control.

15. Section 409A

The Plan is intended to comply with, or be exempt from, the applicable requirements of Section 409A of the Code, and the Plan will be interpreted on a basis consistent with such intent. Notwithstanding any provision to the contrary in this Plan, if a Covered Employee is deemed on the date of his or her "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Company to be a "specified employee" (within the meaning of Treas. Reg. Section 1.409A-1(i)), then with regard to any payment that is considered deferred compensation under Section 409A payable on account of a "separation from service" that is required to be delayed pursuant to Section 409A(a)(2)(B) of the Code (after taking into account any applicable exceptions to such requirement), such payment shall be made on the date that is the earlier of (i) the expiration of the six (6)-month period measured from the date of the Covered Employee's "separation from service," or (ii) the date of the Covered Employee's death (the "Delay Period"). Upon the expiration of the Delay Period, all distributions delayed pursuant to this Section 15 shall be made to the Covered Employee in a lump sum and any remaining distributions due under this Plan shall be made in accordance with the normal payment dates specified for them herein. Notwithstanding any provision of this Plan to the contrary, for purposes of any provision of this Plan providing for the payment of any amounts considered to be deferred compensation for purposes of Section 409A of the Code upon or following a termination of employment, references to the Covered Employee's termination date and "termination of employment" (and corollary terms) with the Company shall be construed

to refer to the Covered Employee's "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Company. In no event whatsoever shall the Company be liable for any additional tax, interest or penalties that may be imposed on a Covered Employee by Section 409A of the Code or any damages for failing to comply with Section 409A of the Code. Whenever a payment under this Plan specifies a payment period with reference to a number of days (e.g., "payment shall be made within thirty (30) days after termination of employment"), the actual date of payment within the specified period shall be within the sole discretion of the Company.

16. Miscellaneous.

(A) Arbitration. Any claim arising under or in connection with this Plan shall be resolved exclusively by binding arbitration. Such arbitration shall be held in the city of Stamford, Connecticut, and shall be conducted in accordance with the Employment Arbitration Rules then pending of the American Arbitration Association ("AAA"), and otherwise in accordance with the principles that would be applied by a court of law or equity. The arbitrator shall be acceptable to both the Covered Employee and the Company. If the Covered Employee and the Company cannot agree on an acceptable arbitrator, the claim shall be heard by a panel of three arbitrators, with one each appointed by the Covered Employee and the Company and the third appointed by the other two arbitrators. The award rendered by the arbitrator (or arbitrators) will be final and determinative as to any and all issues submitted for arbitration, and a judgment may be entered on any award by any state or federal court having jurisdiction over the parties or their respective property. The Covered Employee and the Company shall be jointly and equally responsible for all arbitration fees assessed by the AAA, and the Covered Employee and the Company shall each be responsible for their respective attorney's fees and related expenses; provided that, should the claim relate to circumstances occurring on or after the date of a Change in Control, if the arbitrator (or arbitrators) shall in the award determine one or more material issues in dispute in favor of the Covered Employee, then the Company shall pay the Covered Employee's share of any expenses of the arbitration and the Covered Employee's reasonable attorney's fees and related expenses (or cause such fees and expenses to be paid), upon presentation of proof of such fees and expenses in a form reasonably acceptable to the Company.

(B) Notice. Except as provided in this Plan, a Covered Employee shall not be entitled to any notice of termination or pay in lieu thereof. At the sole discretion of the Company, notice may be provided.

(C) Death of the Covered Employee. In the event of the death of the Covered Employee after the termination date but prior to his or her receipt of severance pay, the payment that would otherwise have been due to the Covered Employee shall be paid, subject to applicable law, to the Covered Employee's spouse, if any, or if the Covered Employee is not married, to his or her estate.

(D) Successor. All rights of the Company under this Plan shall inure to the benefit of, and all obligations of the Company under the Plan shall be binding on, any successor to

the Company, whether such successorship results from a direct or indirect purchase of all or substantially all of the business and/or assets of the Company, or a merger, consolidation or otherwise.

(E) Unfunded. Benefits under this Plan are paid for entirely by the Company from its general assets.

(F) Withholding. Any payments provided for herein shall be reduced by any amounts required to be withheld by the Company from time to time under applicable Federal, State, local or foreign income or employment tax laws or similar statutes or other provisions of law then in effect.

(G) Not Compensation For Benefit Plans. Except as may otherwise be specifically provided by the applicable employee benefit plan, as it may be amended from time to time, severance pay and any other payment made by the Company after the termination date shall not be taken into account for any purpose under any employee benefit plan of the Company.

(H) Governing Law. The Plan and all rights under the Plan shall be governed and construed in accordance with the laws of the State of Connecticut, without regard to the principles of conflict of laws thereof.

(I) Section Headings. The section headings contained in this Plan are included solely for convenience of reference and shall not in any way affect the meaning of any provision of this Plan.

(J) Not an Employment Contract. This Plan is not a contract of employment. It does not guarantee employment for any specified period and does not limit the right of the Company to terminate a Covered Employee's employment at any time for any reason. Except as otherwise provided in a written agreement with the Company, employment with the Company is terminable at will.

Except as otherwise provided in a written agreement with the Company, any employee retains the right to terminate his or her employment at any time, with or without notice, and with or without cause. Likewise, the Company can terminate the employment of any employee at any time, with or without notice, and with or without cause, subject to applicable law.

SCHEDULE A

DEFINITIONS

(a) "Cause" means : (A) conviction of the Covered Employee of a felony involving moral turpitude, dishonesty or laws to which the Company or its affiliates are subject in connection with the conduct of its or their business; (B) the Covered Employee, in carrying out his or her duties for the Company, has been guilty of (1) willful misconduct or (2) refusal by the Covered Employee to perform the duties assigned to him or her and the continuance of such refusal after receipt of written notice; or (C) the Covered Employee's refusal to obey any lawful policy or requirement duly adopted by the Board of Directors of XL Group plc and the continuance of such refusal after receipt of written notice.

(b) "Change in Control" shall mean any of the following:

(i) an acquisition by any Person of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of 40% or more of either (A) the value of then outstanding equity securities of XL Group plc (the "Outstanding Company Stock") or (B) the combined voting power of the then outstanding voting securities of XL Group plc entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this Plan, the following acquisitions shall not constitute or result in a Change in Control: (w) any acquisition directly from XL Group plc; (x) any acquisition by XL Group plc; (y) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by XL Group plc or one or more of its subsidiaries; or (z) any acquisition by any entity pursuant to a Business Combination (as defined below) that does not constitute a Change in Control under clause (ii) below; or

(ii) consummation of a merger, scheme of arrangement, consolidation, amalgamation, exchange of securities, reorganization or similar transaction involving XL Group plc or any of its subsidiaries, a sale or other disposition of all or substantially all of the consolidated assets of XL Group plc, or the acquisition of assets or equity of another entity by XL Group plc or any of its subsidiaries (each a "Business Combination"), in each case, unless, following such Business Combination, all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than sixty percent (60%) of the value of the then outstanding equity securities and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of members of the board of directors (or comparable governing body

of an entity that does not have such a board), as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity which as a result of such transaction owns XL Group plc or all or substantially all of XL Group plc's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Stock and Outstanding Company Voting Securities, as the case may be; or

(iii) approval by shareholders of XL Group plc of the dissolution or complete liquidation of XL Group plc; provided, however, that for purposes of this Plan, approval of such a dissolution or complete liquidation pursuant to a Business Combination (as defined above) that does not constitute a Change in Control under clause (ii) above shall not constitute or result in a Change in Control; or

(iv) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of XL Group plc (the "Board") and any new directors (excluding any new director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation or proxy contest, relating to the election of directors of XL Group plc) whose appointment, election, or nomination for election was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose appointment, election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board.

(c) "CIC Good Reason" means the occurrence of any of the following within two years after the occurrence of a Change in Control, unless done with the prior written consent of the Covered Employee, where notice of termination is provided as described below:

(i) (A) the assignment to the Covered Employee of any duties inconsistent in any material adverse respect with his or her position, duties, authority or responsibilities, or (B) a material diminution of the Covered Employee's duties, authority or responsibilities in effect immediately before the Change in Control;

(ii) a material reduction in the Covered Employee's annual base salary or target annual bonus; or

(iii) the Company's requiring the Covered Employee's primary office to be more than 50 miles from its then current location but only if the new office is also more than 50 miles from the Covered Employee's principal residence.

The Covered Employee must provide written notice of his or her intention to terminate employment for CIC Good Reason to the Company within 60 days of having actual knowledge of the events giving rise to such CIC Good Reason, which sets forth in

reasonable detail the facts and circumstances claimed to provide a basis for termination for CIC Good Reason. The Company shall have 30 days from its receipt of such notice to remedy the condition, in which case CIC Good Reason shall no longer exist with regard to such condition. Any date of termination for CIC Good Reason shall not be more than 180 days after the CIC Good Reason event occurs.

(d) "Comparable Position" shall mean a position with materially the same base salary rate and annual target bonus with comparable duties and that either is located not more than 50 miles from the immediately preceding location of the Covered Employee's primary office or not more than 50 miles from the Covered Employee's principal residence.

(e) "Disability" means (i) that the Covered Employee has been, or is likely to be, incapable of substantially fulfilling his or her positions, duties, responsibilities and obligations on account of physical, mental or emotional incapacity resulting from injury, sickness or disease for a period of at least 180 days in any twelve-month period, as determined by a medical physician selected by the Company and that is reasonably acceptable to the Covered Employee (which acceptance shall not be unreasonably withheld or delayed), or (ii) the Covered Employee has qualified for benefits under the Company's Long Term Disability Plan.

(f) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.

(g) "Good Reason" means the occurrence of any of the following, unless done with the prior written consent of the Covered Employee, where notice of termination is provided as described below:

(i) a material reduction in the Covered Employee's annual base salary or target annual bonus; or

(ii) the Company's requiring the Covered Employee's primary office to be more than 50 miles from its then current location but only if the new office is also more than 50 miles from the Covered Employee's principal residence.

The Covered Employee must provide written notice of his or her intention to terminate employment for Good Reason to the Plan Administrator within 60 days of having actual knowledge of the events giving rise to such Good Reason, which sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination for Good Reason. The Company shall have 30 days from its receipt of such notice to remedy the condition, in which case Good Reason shall no longer exist with regard to such condition. Any date of termination for Good Reason shall not be more than 180 days after the Good Reason event occurs.

(h) “<u>Ineligible Termination</u>” means:

(1) the Covered Employee is terminated for misconduct, including violations of Company policies, violation of the Company’s Code of Conduct or its Code of Conduct Supplement, violation of any confidentiality agreement or other covenant or restriction applicable to the Covered Employee, or any termination for Cause;

(2) the Covered Employee terminates employment with the Company prior to the date selected by the Company as his or her last day of active employment;

(3) the Covered Employee is terminated in connection with a sale or divestiture described in Section 10 of the Plan and any of the conditions set forth in Section 10 (1) through (4) apply; or

(4) the Covered Employee’s employment terminates as a result of his or her death, or as a result of his or her Disability.

(i) “<u>Person</u>” means an organization, a corporation, an individual, a partnership, a trust or any other entity or organization, including a governmental entity and a “person” as that term is used under Section 13(d) or 14(d) of the Exchange Act.

(j) A “<u>Potential Change in Control</u>” shall occur if:

(1) a Person shall commence a tender offer, which, if successfully consummated, would result in such Person being the beneficial owner of 40% or more of the Outstanding Company Stock or the Outstanding Company Voting Securities;

(2) XL Group plc enters into an agreement, the consummation of which would constitute a Change in Control;

(3) a solicitation of proxies for the election of directors of XL Group plc by anyone other than XL Group plc is commenced, which, if such directors were elected, would result in the occurrence of a Change in Control; or

(4) any other event shall occur which is deemed to be a Potential Change in Control by the Board, the MDCC, or any other appropriate committee of the Board in its sole discretion.

Exhibit 10.50

[Template]

On XL Group Letterhead

Name
Address

Re: Participant Agreement - XL Group Senior Executive Severance Benefit Program

Dear ____________:

This letter is provided to you by and on the behalf of X.L. America, Inc., its parents, subsidiaries, and affiliates ("XL", "XL Group", or the "Company"), to confirm your participation in the XL Group plc Executive Severance Benefit Plan ("Plan") upon the condition that you agree to abide by certain post-employment restrictive covenant arrangements described below.

XL recognizes that as a member of its Leadership Team, you play a vital role in securing its continuing success. Your role provides you with access to and use of confidential and proprietary information of the Company, which you also are entrusted to safeguard. In light of that, it would pose a serious risk of harm to XL's business and reputation if you were to become employed by a competitor immediately upon your leaving XL for any reason, or if you attempted to solicit the Company's valued employees, clients, or customers within a reasonable time after your separation from employment. Therefore, and in consideration of your becoming eligible to receive Severance Pay and benefits under the Plan, you hereby covenant and agree that:

1. <u>Non-Competition and Non-Solicitation</u>.

(a) Restriction on Work for a Competitor/Solicitation of Business: While employed by XL and for a <u>six month</u> period following termination of your employment with XL for any reason (the "Restriction Period"), except that the Restriction Period shall be <u>one year</u> following termination of your employment for any reason within twenty-four months after a Change in Control:

(i) You will not become employed by or associated with any entity, whether as a principal, advisor, partner, employee, agent, consultant, shareholder (other than as a shareholder of less than 5% of any publicly traded company) or in any other relationship or capacity, paid or unpaid, that is actively engaged in selling or providing, either directly or indirectly, in the United States, Bermuda, Greater London, or the Republic of Ireland, any products or services that are the same as or similar to insurance and reinsurance products or services that as of the date of your termination are being provided in those locations either directly or indirectly by XL.

(ii) You will not, directly or indirectly contact, seek, entice, solicit, induce, persuade, divert or attempt to divert any business away from XL, including any former, present or prospective customer, client, insured, vendor, supplier, investor, or business partner of which you have personal

knowledge or with whom you are personally involved during your employment at XL, with respect to any existing or proposed contractual or business arrangement with XL, insurance or reinsurance product or service sold or provided by or to XL during your employment, or any such product or service that is under development by XL at the time your employment ends. It is presumed that by reason of your membership on the Leadership Team of XL Group that you have actual knowledge of any material business arrangement or contract, or any insurance or reinsurance products or services, whether currently provided or under development during, your employment. The restrictions in this paragraph shall not apply if you are expressly permitted to engage in the otherwise prohibited activity, in writing, by XL, in its sole discretion, following its receipt of your written request before commencement of the activity.

(b) *Restriction on the Solicitation of Employees:* While employed by XL and for a one-year period following termination of your employment with XL for any reason, you will not directly or indirectly solicit, encourage or induce any employee of XL to terminate employment with XL, and will not directly or indirectly, either individually or as owner, agent, employee, consultant or otherwise, employ or offer employment to any person who was employed by XL at the time of your termination from employment with XL or at any time during the six-month period prior to your termination ("XL employee") to engage in any business activity which competes with the insurance or reinsurance businesses of XL or its investment, corporate, or financial operations. You also agree that during the one-year period following your termination of employment with the Company for any reason, any subsequent employer's hiring of an XL employee into a position that reports directly or indirectly to you who was employed in a senior leadership capacity at XL (currently defined to be the XL Leadership Team, Band E or Band D) will constitute a breach of this paragraph.

2. Confidentiality. You agree that without the prior written consent of XL, except to the extent required by an order of a court having competent jurisdiction or under subpoena from an appropriate government agency, you shall not disclose, except in the good faith performance of your duties, to any third person, or permit the use of for the benefit of any person, including yourself, or any entity other than XL or its affiliates, any Confidential Information, which shall mean (i) trade secrets, customer lists, information regarding product development, marketing plans, sales plans, management organization information (including data and other information relating to members of the Board and management), operating policies or manuals, business plans, financial records, or other financial, organizational, commercial, business, sales, marketing, technical, product or employee information relating to XL or its affiliates, or any other information designated by XL as confidential, proprietary, and/or a trade secret, or any other information relating to XL or its affiliates, that you reasonably know or should know from the circumstances should be treated as confidential, or (ii) any information that XL or its affiliates may receive belonging to customers, agents or others who do business with XL or its affiliates, except to the extent that any such information previously has been disclosed to the public by XL or is in the public domain (other than by reason of your violation of this paragraph). Upon termination of your employment, you agree to return to the Company all files, papers, electronic or digital copies, and materials of any kind containing or relating to Confidential Information. You will be permitted to retain your electronic or

physical rolodex of personal contacts, and you will agree to follow appropriate Company information security protocols related to that retention.

3. Participation in the Plan. The Company acknowledges and agrees that once the Executive Vice President, Human Resources, receives this Agreement, signed by you, and executes it on behalf of the Company, you will be a participant in the Plan, and will be covered by and subject to all of the Plan's provisions. Should XL in its discretion terminate the Plan prior to the date of your termination of employment without establishing a successor plan, you will no longer be a participant in the Plan and the restrictions set forth in Paragraph 1 of this Agreement shall cease to be effective as of the date the Plan terminates.

4. Equitable Relief. You acknowledge and agree that the covenants and obligations in paragraphs 1 and 2 are reasonable and relate to special, unique and extraordinary matters and that, given the extensive knowledge of XL's operations and Confidential Information that you have acquired and will continue to acquire, a violation of any of the terms of these covenants and undertakings will cause XL irreparable injury for which adequate remedies are not available at law. Therefore, you agree that XL shall be entitled to an injunction, restraining order or such other equitable relief from a court of competent jurisdiction (without the requirement to post bond) restraining you from committing any violation of the covenants and obligations contained in paragraphs 1 and 2. Further, XL shall, to the extent permitted by applicable law and the Plan, have no obligation to pay any amounts to you following any material violation of the covenants and undertakings contained in those paragraphs, including any unpaid payments or benefits outstanding under the Plan. You also agree that, pursuant to the terms of the Plan, the Company shall have the right to claw back any payments paid to you under the Plan prior to its discovery of your material breach of paragraphs 1 and 2. These remedies are cumulative and are in addition to any other rights and remedies XL may have at law or in equity or pursuant to the Plan. If any court determines that any of the terms herein are unreasonable, invalid or unenforceable, the court may interpret, alter, amend or modify any or all of the terms to include as much of the scope, time period, and intent as will render the restrictions enforceable, and then as modified, enforce those terms.

5. Miscellaneous. This Letter Agreement shall be governed and construed under the laws of the State of Connecticut, without reference to principles of conflicts or choice of law under which the law of any other jurisdiction would apply. In the event that one or more of the provisions of this Letter Agreement shall become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not be affected thereby. Except as provided in paragraph 4 above, any dispute or controversy arising under or in connection with this Letter Agreement shall be resolved by binding arbitration, to be held in the City of Stamford, Connecticut, and conducted in accordance with the Employment Arbitration Rules of the American Arbitration Association in effect at the time of the arbitration, and otherwise in accordance with the principles that would be applied by a court of law or equity. Terms not specifically defined in this Letter Agreement have their meaning defined in the Plan.

6. Modification. Except as provided in paragraph 4 or 5 above, you and XL agree that this Agreement may not be modified or amended except by a written instrument signed by you and the Chief Human Resources Officer of XL Group plc or his or her designee.

7. **Assignment**. You understand that during the course of your employment, XL may grow and/or expand through merger, acquisition or otherwise. You acknowledge that this Agreement and the rights and obligations of the parties hereto shall bind and inure to the benefit of any successor or successors of XL by reorganization, merger, acquisition or otherwise and any assignee of all or substantially all of XL's business or properties.

8. **Review/Consultation/Acknowledgement**. You acknowledge that you have carefully read this Agreement, fully understand its provisions, and have had a sufficient opportunity to consider its effect, and have had an opportunity to consult with an attorney prior to executing this Letter Agreement. You specifically acknowledge and agree that the purposes of the restrictions and undertakings contained in this Letter Agreement is to protect XL from unfair competition, including improper use of XL's confidential and proprietary information, and that the restrictions and undertakings herein are reasonable as to both scope and duration of application. You further acknowledge that you are knowingly and voluntarily entering into this Letter Agreement.

We thank you for your attention to this matter and look forward to your continued success at XL. Please sign this Letter Agreement below and return it to the Chief Human Resources Officer. A duplicate original is provided for your records.

Very truly yours,

X.L. AMERICA, INC.

By: ___________________________

Title: __________________________

____
Signature of Executive

____
Print Name
Dated: __________________________

Exhibit 10.74

EXECUTION VERSION

FIRST AMENDMENT

FIRST AMENDMENT, dated as of February 11, 2015 (this "Amendment"), to the Secured Credit Agreement, dated as of November 22, 2013 (as amended, modified, restated and supplemented from time to time, the "Credit Agreement"), among XL GROUP PLC, an Irish public limited company ("XL Group"), XLIT LTD., an exempted company incorporated in the Cayman Islands with limited liability ("XLIT"), X.L. AMERICA, INC., a Delaware corporation ("XL America"), XL INSURANCE (BERMUDA) LTD, a Bermuda limited liability company ("XL Insurance (Bermuda)"), XL RE LTD, a Bermuda limited liability company ("XL Re"), XL RE EUROPE SE (formerly known as XL RE EUROPE PLC), a European company organized under the laws of Ireland ("XL Re Europe"), XL INSURANCE COMPANY SE (formerly known as XL INSURANCE COMPANY PLC), a European company domiciled in the United Kingdom ("XL Insurance"), XL INSURANCE SWITZERLAND LTD, a company limited by shares organized under the laws of Switzerland ("XL Switzerland"), and XL LIFE LTD, a Bermuda company ("XL Life" and together with XL Group, XLIT, XL America, XL Insurance (Bermuda), XL Re, XL Re Europe, XL Insurance and XL Switzerland, each an "Account Party" and collectively, the "Account Parties"; XL Group, XLIT, XL America, XL Insurance (Bermuda), XL Re and XL Life, each a "Guarantor" and collectively the "Guarantors"; the Account Parties and the Guarantors being collectively referred to as the "Obligors"), the several lenders from time to time parties thereto (the "Lenders"), JPMORGAN CHASE BANK, N.A., as administrative agent (the "Administrative Agent"), and THE BANK OF NEW YORK MELLON, as collateral agent.

W I T N E S S E T H:

WHEREAS, pursuant to the Credit Agreement, the Lenders agreed to make certain extensions of credit to the Account Parties;

WHEREAS, the Account Parties have requested that certain provisions of the Credit Agreement be amended as set forth herein; and

WHEREAS, the Required Lenders are willing to agree to such amendments on the terms set forth herein;

NOW, THEREFORE, in consideration of the mutual agreements herein contained and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. Defined Terms; Rules of Construction. Capitalized terms used but not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement. The rules of construction set forth in Section 1.02 of the Credit Agreement shall apply herein.

SECTION 2. Amendments to Credit Agreement.

2.1 References Generally. On and after the First Amendment Effective Date, each reference in the Credit Agreement (including references to the Credit Agreement as amended hereby) to "this Agreement" (and indirect references such as "hereunder", "hereby", "herein", "hereof" and words of similar import) shall be deemed to be references to the Credit Agreement as amended hereby.

2.2 Amendments to Section 1.01 (Defined Terms) of the Credit Agreement. (a) The following defined terms shall be inserted in Section 1.01 of the Credit Agreement in appropriate alphabetical order:

"First Amendment" means the First Amendment, dated as of February 11, 2015, to this Agreement among the Obligors, the Administrative Agent and the Lenders party thereto."

"First Amendment Effective Date" has the meaning assigned to such term in the First Amendment, which date is, for the avoidance of doubt, February 11, 2015."

(b) The definition of "Lien" set forth in Section 1.01 of the Credit Agreement is hereby amended by inserting the following parenthetical at the end thereof:

> "(it being understood that any deposit, cash advance or escrow account established in connection with financing the acquisition by XL Group (or a Subsidiary of XL Group) of Catlin Group Limited and its Subsidiaries, shall be excluded from this definition)."

2.3 Amendment to Section 7.02 (Dispositions) of the Credit Agreement. Clause (a) of Section 7.02 of the Credit Agreement is hereby amended by: inserting "(i)" before "current assets" and inserting the following at the end thereof:

", (ii) investments in Affiliates (which are not Subsidiaries) such as closed end funds, limited partnerships, limited liability companies and similar investment vehicles, including funds managed by investment manager Affiliates, that, in each case, are accounted for under the equity method of accounting or (iii) equity interests in investment funds and limited partnerships and unrated tranches of collateralized debt obligations for which an Account Party or its Subsidiary does not have sufficient rights of ownership to follow the equity method of accounting and other investments that may be classified as "Other Investments" on the balance sheet of XL Group and its consolidated Subsidiaries."

2.4 Amendment to Section 7.03 (Liens) of the Credit Agreement. Clause (c) of Section 7.03 of the Credit Agreement is hereby amended and restated as follows:

"(c) Liens existing on the date hereof listed in Part B of Schedule II and Liens existing on the First Amendment Effective Date or, as expressly specified therein, incurred after the First Amendment Effective Date and, in each case, listed in Part D of Schedule II (and, in each case, extension, renewal and replacement Liens upon the same property, provided that the principal amount secured by each Lien constituting such an extension, renewal or replacement Lien shall not exceed the amount secured by the Lien theretofore existing);"

2.5 Amendments to Section 7.07 (Indebtedness) of the Credit Agreement. (a) Clause (c) of Section 7.07 of the Credit Agreement is hereby amended and restated as follows:

"(c) other Indebtedness existing on the date hereof described in Part A of Schedule II and other Indebtedness existing on the First Amendment Effective Date described in Part C of Schedule II (and, in each case, extensions, renewals and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof);"

(b) Section 7.07 of the Credit Agreement is hereby amended by (i) deleting "and" at the end of clause (f) thereof, (ii) deleting "." and inserting "; and" at the end of clause (g) thereof and (iii) inserting the following as a new clause (h) at the end thereof:

"(h) Indebtedness owed by XL Group to any of its Subsidiaries or Indebtedness owed by any Subsidiary to XL Group or any other Subsidiary."

2.6 Amendments to Schedules to the Credit Agreement. Schedule II to the Credit Agreement is hereby amended by inserting Exhibit A hereto as Part C and Part D of Schedule II, respectively.

SECTION 3. Conditions to Effectiveness. This Amendment shall become effective on the date (the "First Amendment Effective Date") on which:

(a) Amendment. The Administrative Agent shall have received a counterpart of this Amendment, in each case executed and delivered by a duly authorized officer of each of the Obligors, the Administrative Agent and Lenders constituting the Required Lenders.

(b) Payment of Fees, Expenses. XL Group shall have paid all fees and expenses as required pursuant to Section 4 of this Amendment or otherwise in connection with this Amendment to the extent invoiced at least one Business Day prior to the First Amendment Effective Date.

(c) Representations and Warranties. The representations and warranties set forth in Section 5 of this Amendment shall be true and correct.

(d) No Defaults. No Default or Event of Default shall have occurred and be continuing on the First Amendment Effective Date, after giving effect to this Amendment.

SECTION 4. Payment of Fees and Expenses. The Obligors agree to pay or reimburse the Administrative Agent for all of its reasonable out-of-pocket costs and expenses incurred in connection with this Amendment, any other documents prepared in connection herewith and the transactions contemplated hereby, including, without limitation, the documented reasonable fees, charges and disbursements of counsel to the Administrative Agent.

SECTION 5. Representations and Warranties. The Obligors hereby represent and warrant that (a) each of the representations and warranties set forth in Article IV of the Credit Agreement and in the other Credit Documents shall be, both immediately before and after giving effect to this Amendment, true and correct in all material respects as if made on and as of the First Amendment Effective Date (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date), (b) both immediately before and after giving effect to this Amendment, no Default or Event of Default shall have occurred and be continuing and (c) this Amendment has been duly executed and delivered by each Obligor and constitutes a legal, valid and binding obligation of such Obligor, enforceable against such Obligor in accordance with its terms, except as such enforceability may be limited by (x) bankruptcy, insolvency, reorganization, moratorium, examination or similar laws of general applicability affecting the enforcement of creditors' rights and (y) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

SECTION 6. GOVERNING LAW; WAIVER OF JURY TRIAL; CONSENT TO SERVICE OF PROCESS. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF NEW YORK. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AMENDMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AMENDMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION. EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 10.01 OF THE CREDIT AGREEMENT. NOTHING IN THIS AMENDMENT SHALL EFFECT THE RIGHT OF ANY PARTY TO THIS AMENDMENT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

SECTION 7. Amendments; Execution in Counterparts. (a) This Amendment shall not constitute an amendment of any other provision of the Credit Agreement not referred to herein and shall not be construed as a waiver or consent to any further or future action on the part of the Obligors that would require a waiver or consent of the Lenders or the Administrative Agent. Except as expressly amended hereby, the provisions of the Credit Agreement are and shall remain in full force and effect and each of the Obligors agrees, with respect to each Credit Document to which it is a party, that all of its obligations, liabilities and indebtedness under such Credit Document, as amended hereby, including guarantees, shall remain in full force and effect. This Amendment shall constitute a Credit Document for the purposes of the Credit Agreement and the other Credit Documents. This Amendment may not be amended nor may any provision hereof be waived, amended or modified except in writing signed by the Obligors, the Administrative Agent and the Required Lenders.

(b) This Amendment may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page to this Amendment by telecopy or email shall be effective as delivery of a manually executed counterpart of this Amendment.

SECTION 8. Integration. This Amendment and the other Credit Documents constitute the entire contract between and among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof.

SECTION 9. Severability. To the fullest extent permitted by law, any provision of this Amendment held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective proper and duly authorized officers as of the day and year first above written.

XL GROUP PLC,
as an Account Party and a Guarantor

By_/s/_ Peter Porrino ___________
Name: Peter Porrino
Title: EVP + CFO

U.S. Federal Tax Identification No.: 98-0665416

XLIT LTD.,
as an Account Party and a Guarantor

By_/s/_ Peter Porrino ___________
Name: Peter Porrino
Title: Director

U.S. Federal Tax Identification No.: 98-0191089

X.L. AMERICA, INC.,
as an Account Party and a Guarantor

By_/s/ Richard G. McCarty________________________
Name: Richard G. McCarty
Title: Senior Vice President, General Counsel and Secretary

U.S. Federal Tax Identification No.: 06-1516268

XL INSURANCE (BERMUDA) LTD,
as an Account Party and a Guarantor

By __/s/ C. Stanley Lee____________
Name: C. Stanley Lee
Title: Director

U.S. Federal Tax Identification No.: 98-0354869

XL RE LTD,
as an Account Party and a Guarantor

By _/s/ Mark Twite________________
Name: Mark Twite
Title: Director

U.S. Federal Tax Identification No.: 98-0351953

XL RE EUROPE SE,
as an Account Party

By _/s/ Alexandre Barrage____________
Name: Alexandre Barrage
Title: Chief Financial Officer

U.S. Federal Tax Identification No.: 30-0479679

XL INSURANCE COMPANY SE,
as an Account Party

By__/s/ Graham Brady _______
Name: Graham Brady
Title: Company Secretary

U.S. Federal Tax Identification No.: 30-0479685

XL INSURANCE SWITZERLAND LTD,
as an Account Party

By_/s/ Bruno Lanzlinger_______
Name: Bruno Lanzlinger
Title: Chief Executive Officer

By_/s/ Wouter Mortiz__________
Name: Wouter Moritz
Title: CFO

U.S. Federal Tax Identification No.: 30-0479676

XL LIFE LTD,
as an Account Party and a Guarantor

By_/s/ Mark Twite_______________
Name: Mark Twite
Title: Director

U.S. Federal Tax Identification No.: 98-0228561

LENDERS

JPMORGAN CHASE BANK, N.A., individually and as Administrative Agent

By: /s/ Kristen M. Murphy
Name: Kristen M. Murphy
Title: Vice President

DEUTSCHE BANK AG NEW YORK BRANCH

By /s/ John S. McGill
Name: John S. McGill
Title: Director

By /s/ Virginia Consenza
Name: Virginia Consenza
Title: Director

[First Amendment to Secured Credit Agreement - Signature Page]

THE ROYAL BANK OF SCOTLAND PLC

By: /s/ Karen Beatty
Name: Karen Beatty
Title: Director

[First Amendment to Secured Credit Agreement - Signature Page]

Barclays Bank Plc

By:/s/ Alicia Borys
Name: Alica Borys
Title: Vice President

[First Amendment to Secured Credit Agreement - Signature Page]

CREDIT AGRICOLE CORPORATE &
INVESTMENT BANK

By: /s/ Jorge Fries
Name: Jorge Fries
Title: Managing Director

By: /s/ Gordon Yip
Name: Gordon Yip
Title: Director

[First Amendment to Secured Credit Agreement - Signature Page]

GOLDMAN SACHS BANK USA

By: /s/ Jamie Minieri
Name: Jamie Minieri
Title: Authorized Signatory

[First Amendment to Secured Credit Agreement - Signature Page]

HSBC Bank, USA, National Association

By: /s/ Richard Herder
Name: Richard Herder
Title: Managing Director

[First Amendment to Secured Credit Agreement - Signature Page]

ING BANK N.V., London Branch

By: /s/ M Green
Name: M Green
Title: Director

By: /s/ M E R Sharman
Name: M E R Sharman
Title: Managing Director

[First Amendment to Secured Credit Agreement - Signature Page]

Lloyds Bank

By: /s/ Leah Gorospe
Name: Leah Gorospe
Title: Assistant Manager Banking Operations
Category A G004

By: /s/ Dennis McClellan
Name: Dennis McClellan
Title: Assistant Vice President M040

[First Amendment to Secured Credit Agreement - Signature Page]

THE BANK OF NY MELLON

By: /s/ Michael Pensari
Name: Michael Pensari
Title: Managing Director

[First Amendment to Secured Credit Agreement - Signature Page]

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

By: /s/ Glenn Schuermann
Name: Glenn Schuermann
Title: Director

[First Amendment to Secured Credit Agreement - Signature Page]

BNP Paribas

By: /s/ Nair P. Raghu
Name: Nair P. Raghu
Title: Vice President

By: /s/ Laurent Vanderzyppe
Name: Laurent Vanderzyppe
Title: Managing Director

[First Amendment to Secured Credit Agreement - Signature Page]

Commerzbank AG, New York Branch

By: /s/ Paul Vedova
Name: Paul Vedova
Title: Vice President

By: /s/ Barry S. Felgenbavm
Name: Barry S. Felgenbavm
Title: Managing Director

[First Amendment to Secured Credit Agreement - Signature Page]

Morgan Stanley Bank, N.A. as lender

By: Harry Cominellis
Name: Harry Comninellis
Title: Authorized Signatory

[First Amendment to Secured Credit Agreement - Signature Page]

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ Grainne Pergolini
Name: Grainne Pergolini
Title: Director

[First Amendment to Secured Credit Agreement - Signature Page]

EXHIBIT A

SCHEDULE II

Part C

1. Amended and Restated Pledge Agreement dated as of December 19, 2014, as made by XL Insurance (Bermuda) Ltd and XL Re Ltd as Pledgors and Citibank Europe PLC as Pledgee which amends and restates the Pledge Agreement dated November 11, 2009 between the parties.
2. Amended and Restated Pledge Agreement dated as of December 19, 2014, as made by XL Investments Ltd, XL Re Ltd and XL Insurance (Bermuda) Ltd as grantors and in favour of Citibank, N.A which amends and restates the Pledge Agreement dated December 18, 2001 between the parties.
3. 2.30% Senior Notes due December 15, 2018, under the Second Supplemental Indenture, dated November 21, 2013, to the Indenture dated September 30, 2011 among XL Group plc, XL Group Ltd. (n/k/a XLIT Ltd.) and Wells Fargo Bank, National Association, as Trustee.
4. 5.25% Senior Notes due December 15, 2043, under the Second Supplemental Indenture, dated November 21, 2013, to the Indenture dated September 30, 2011 among XL Group plc, XL Group Ltd. (n/k/a XLIT Ltd.) and Wells Fargo Bank, National Association, as Trustee.
5. Credit Facility Agreement dated December 30, 2014 between XL Insurance (Bermuda) Ltd and ING Bank N.V., London Branch.
6. Facility and Fee Letter dated December 30, 2014 from Citibank Europe plc to XL Insurance (Bermuda) Ltd relating to the Insurance Letter of Credit – Master Agreement, dated 11 November 2009, between XL Insurance (Bermuda) Ltd and Citibank Europe PLC.

Part D

1. Floating Charge dated August 1, 2011 by XL Insurance (Bermuda) Ltd in Favour of XL Insurance Company Limited.
2. Floating Charge to be entered into by XL Insurance (Bermuda) Ltd in Favour of XL Insurance Company Limited replacing the Floating Charge, dated December 31, 2010 and the Floating Charge dated August 1, 2011.

Exhibit 10.76

EXECUTION VERSION

FIRST AMENDMENT

FIRST AMENDMENT, dated as of February 11, 2015 (this "Amendment"), to the Unsecured Credit Agreement, dated as of November 22, 2013 (as amended, modified, restated and supplemented from time to time, the "Credit Agreement"), among XL GROUP PLC, an Irish public limited company ("XL Group"), XLIT LTD., an exempted company incorporated in the Cayman Islands with limited liability ("XLIT"), X.L. AMERICA, INC., a Delaware corporation ("XL America"), XL INSURANCE (BERMUDA) LTD, a Bermuda limited liability company ("XL Insurance (Bermuda)"), XL RE LTD, a Bermuda limited liability company ("XL Re"), XL RE EUROPE SE (formerly known as XL RE EUROPE PLC), a European company organized under the laws of Ireland ("XL Re Europe"), XL INSURANCE COMPANY SE (formerly known as XL INSURANCE COMPANY PLC), a European company domiciled in the United Kingdom ("XL Insurance"), XL INSURANCE SWITZERLAND LTD, a company limited by shares organized under the laws of Switzerland ("XL Switzerland"), and XL LIFE LTD, a Bermuda company ("XL Life" and together with XL Group, XLIT, XL America, XL Insurance (Bermuda), XL Re, XL Re Europe, XL Insurance and XL Switzerland, each an "Account Party" and collectively, the "Account Parties"; XL Group, XLIT, XL America, XL Insurance (Bermuda), XL Re and XL Life, each a "Guarantor" and collectively the "Guarantors"; the Account Parties and the Guarantors being collectively referred to as the "Obligors"), the several lenders from time to time parties thereto (the "Lenders") and JPMORGAN CHASE BANK, N.A., as administrative agent (the "Administrative Agent").

W I T N E S S E T H:

WHEREAS, pursuant to the Credit Agreement, the Lenders agreed to make certain extensions of credit to the Account Parties;

WHEREAS, the Account Parties have requested that certain provisions of the Credit Agreement be amended as set forth herein; and

WHEREAS, the Required Lenders are willing to agree to such amendments on the terms set forth herein;

NOW, THEREFORE, in consideration of the mutual agreements herein contained and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. Defined Terms; Rules of Construction. Capitalized terms used but not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement. The rules of construction set forth in Section 1.02 of the Credit Agreement shall apply herein.

SECTION 2. Amendments to Credit Agreement.

2.1 References Generally. On and after the First Amendment Effective Date, each reference in the Credit Agreement (including references to the Credit Agreement as amended hereby) to "this Agreement" (and indirect references such as "hereunder", "hereby", "herein", "hereof" and words of similar import) shall be deemed to be references to the Credit Agreement as amended hereby.

2.2 Amendments to Section 1.01 (Defined Terms) of the Credit Agreement. (a) The following defined terms shall be inserted in Section 1.01 of the Credit Agreement in appropriate alphabetical order:

"First Amendment" means the First Amendment, dated as of February 11, 2015, to this Agreement among the Obligors, the Administrative Agent and the Lenders party thereto."

"First Amendment Effective Date" has the meaning assigned to such term in the First Amendment, which date is, for the avoidance of doubt, February 11, 2015."

(b) The definition of "Lien" set forth in Section 1.01 of the Credit Agreement is hereby amended by inserting the following parenthetical at the end thereof:

"(it being understood that any deposit, cash advance or escrow account established in connection with financing the acquisition by XL Group (or a Subsidiary of XL Group) of Catlin Group Limited and its Subsidiaries, shall be excluded from this definition)."

2.3 Amendment to Section 7.02 (Dispositions) of the Credit Agreement. Clause (a) of Section 7.02 of the Credit Agreement is hereby amended by: inserting "(i)" before "current assets" and inserting the following at the end thereof:

", (ii) investments in Affiliates (which are not Subsidiaries) such as closed end funds, limited partnerships, limited liability companies and similar investment vehicles, including funds managed by investment manager Affiliates, that, in each case, are accounted for under the equity method of accounting or (iii) equity interests in investment funds and limited partnerships and unrated tranches of collateralized debt obligations for which an Account Party or its Subsidiary does not have sufficient rights of ownership to follow the equity method of accounting and other investments that may be classified as "Other Investments" on the balance sheet of XL Group and its consolidated Subsidiaries."

2.4 Amendment to Section 7.03 (Liens) of the Credit Agreement. Clause (c) of Section 7.03 of the Credit Agreement is hereby amended and restated as follows:

"(c) Liens existing on the date hereof listed in Part B of Schedule II and Liens existing on the First Amendment Effective Date or, as expressly specified therein, incurred after the First Amendment Effective Date and, in each case, listed in Part D of Schedule II (and, in each case, extension, renewal and replacement Liens upon the same property, provided that the principal amount secured by each Lien constituting such an extension, renewal or replacement Lien shall not exceed the amount secured by the Lien theretofore existing);"

2.5 Amendments to Section 7.07 (Indebtedness) of the Credit Agreement. (a) Clause (c) of Section 7.07 of the Credit Agreement is hereby amended and restated as follows:

"(c) other Indebtedness existing on the date hereof described in Part A of Schedule II and other Indebtedness existing on the First Amendment Effective Date described in Part C of Schedule II

(and, in each case, extensions, renewals and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof);"

(b) Section 7.07 of the Credit Agreement is hereby amended by (i) deleting "and" at the end of clause (f) thereof, (ii) deleting "." and inserting "; and" at the end of clause (g) thereof and (iii) inserting the following as a new clause (h) at the end thereof:

"(h) Indebtedness owed by XL Group to any of its Subsidiaries or Indebtedness owed by any Subsidiary to XL Group or any other Subsidiary."

2.6 Amendments to Schedules to the Credit Agreement. Schedule II to the Credit Agreement is hereby amended by inserting Exhibit A hereto as Part C and Part D of Schedule II, respectively.

SECTION 3. Conditions to Effectiveness. This Amendment shall become effective on the date (the "First Amendment Effective Date") on which:

(a) Amendment. The Administrative Agent shall have received a counterpart of this Amendment, in each case executed and delivered by a duly authorized officer of each of the Obligors, the Administrative Agent and Lenders constituting the Required Lenders.

(b) Payment of Fees, Expenses. XL Group shall have paid all fees and expenses as required pursuant to Section 4 of this Amendment or otherwise in connection with this Amendment to the extent invoiced at least one Business Day prior to the First Amendment Effective Date.

(c) Representations and Warranties. The representations and warranties set forth in Section 5 of this Amendment shall be true and correct.

(d) No Defaults. No Default or Event of Default shall have occurred and be continuing on the First Amendment Effective Date, after giving effect to this Amendment.

SECTION 4. Payment of Fees and Expenses. The Obligors agree to pay or reimburse the Administrative Agent for all of its reasonable out-of-pocket costs and expenses incurred in connection with this Amendment, any other documents prepared in connection herewith and the transactions contemplated hereby, including, without limitation, the documented reasonable fees, charges and disbursements of counsel to the Administrative Agent.

SECTION 5. Representations and Warranties. The Obligors hereby represent and warrant that (a) each of the representations and warranties set forth in Article IV of the Credit Agreement and in the other Credit Documents shall be, both immediately before and after giving effect to this Amendment, true and correct in all material respects as if made on and as of the First Amendment Effective Date (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date), (b) both immediately before and after giving effect to this Amendment, no Default or Event of Default shall have occurred and be continuing and (c) this Amendment has been duly executed and delivered by each Obligor and constitutes a legal, valid and binding obligation of such Obligor, enforceable against such Obligor in accordance with its terms, except as such enforceability may be limited by (x) bankruptcy, insolvency, reorganization, moratorium, examination or similar laws of general applicability affecting the enforcement of creditors' rights and (y) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

SECTION 6. GOVERNING LAW; WAIVER OF JURY TRIAL; CONSENT TO SERVICE OF PROCESS. THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF NEW YORK. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AMENDMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AMENDMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION. EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 10.01 OF THE CREDIT AGREEMENT. NOTHING IN THIS AMENDMENT SHALL EFFECT THE RIGHT OF ANY PARTY TO THIS AMENDMENT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

SECTION 7. Amendments; Execution in Counterparts. (a) This Amendment shall not constitute an amendment of any other provision of the Credit Agreement not referred to herein and shall not be construed as a waiver or consent to any further or future action on the part of the Obligors that would require a waiver or consent of the Lenders or the Administrative Agent. Except as expressly amended hereby, the provisions of the Credit Agreement are and shall remain in full force and effect and each of the Obligors agrees, with respect to each Credit Document to which it is a party, that all of its obligations, liabilities and indebtedness under such Credit Document, as amended hereby, including guarantees, shall remain in full force and effect. This Amendment shall constitute a Credit Document for the purposes of the Credit Agreement and the other Credit Documents. This Amendment may not be amended nor may any provision hereof be waived, amended or modified except in writing signed by the Obligors, the Administrative Agent and the Required Lenders.

(b) This Amendment may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page to this Amendment by telecopy or email shall be effective as delivery of a manually executed counterpart of this Amendment.

SECTION 8. Integration. This Amendment and the other Credit Documents constitute the entire contract between and among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof.

SECTION 9. Severability. To the fullest extent permitted by law, any provision of this Amendment held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective proper and duly authorized officers as of the day and year first above written.

XL GROUP PLC,
as an Account Party and a Guarantor

By /s/ Peter Porrino ___________
Name: Peter Porrino
Title: EVP + CFO

U.S. Federal Tax Identification No.: 98-0665416

XLIT LTD.,
as an Account Party and a Guarantor

By /s/ Peter Porrino ___________
Name: Peter Porrino
Title: Director

U.S. Federal Tax Identification No.: 98-0191089

X.L. AMERICA, INC.,
as an Account Party and a Guarantor

By /s/ Richard G. McCarty_________________________
Name: Richard G. McCarty
Title: Senior Vice President, General Counsel and Secretary

U.S. Federal Tax Identification No.: 06-1516268

XL INSURANCE (BERMUDA) LTD,
as an Account Party and a Guarantor

By __/s/ C. Stanley Lee____________
Name: C. Stanley Lee
Title: Director

U.S. Federal Tax Identification No.: 98-0354869

XL RE LTD,
as an Account Party and a Guarantor

By _/s/ Mark Twite________________
Name: Mark Twite
Title: Director

U.S. Federal Tax Identification No.: 98-0351953

XL RE EUROPE SE,
as an Account Party

By _/s/ Alexandre Barrage____________
Name: Alexandre Barrage
Title: Chief Financial Officer

U.S. Federal Tax Identification No.: 30-0479679

[First Amendment to Unsecured Credit Agreement - Signature Page]

XL INSURANCE COMPANY SE,
as an Account Party

By__/s/ Graham Brady ________
Name: Graham Brady
Title: Company Secretary

U.S. Federal Tax Identification No.: 30-0479685

XL INSURANCE SWITZERLAND LTD,
as an Account Party

By_/s/ Bruno Lanzlinger________
Name: Bruno Lanzlinger
Title: Chief Executive Officer

By_/s/ Wouter Mortiz___________
Name: Wouter Moritz
Title: CFO

U.S. Federal Tax Identification No.: 30-0479676

XL LIFE LTD,
as an Account Party and a Guarantor

By_/s/ Mark Twite_________________
Name: Mark Twite
Title: Director

U.S. Federal Tax Identification No.: 98-0228561

LENDERS

JPMORGAN CHASE BANK, N.A., individually and as Administrative Agent

By: /s/ Kristen M. Murphy
Name: Kristen M. Murphy
Title: Vice President

[First Amendment to Unsecured Credit Agreement - Signature Page]

DEUTSCHE BANK AG NEW YORK BRANCH

By /s/ John S. McGill
Name: John S. McGill
Title: Director

By /s/ Virginia Consenza
Name: Virginia Consenza
Title: Director

[First Amendment to Unsecured Credit Agreement - Signature Page]

THE ROYAL BANK OF SCOTLAND PLC

By: /s/ Karen Beatty
Name: Karen Beatty
Title: Director

Barclays Bank Plc

By:/s/ Alicia Borys
Name: Alica Borys
Title: Vice President

[First Amendment to Unsecured Credit Agreement - Signature Page]

CREDIT AGRICOLE CORPORATE &
INVESTMENT BANK

By: /s/ Jorge Fries
Name: Jorge Fries
Title: Managing Director

By: /s/ Gordon Yip
Name: Gordon Yip
Title: Director

GOLDMAN SACHS BANK USA

By: /s/ Jamie Minieri
Name: Jamie Minieri
Title: Authorized Signatory

[First Amendment to Unsecured Credit Agreement - Signature Page]

HSBC Bank, USA, National Association

By: /s/ Richard Herder
Name: Richard Herder
Title: Managing Director

[First Amendment to Unsecured Credit Agreement - Signature Page]

ING BANK N.V., London Branch

By: /s/ M Green
Name: M Green
Title: Director

By: /s/ M E R Sharman
Name: M E R Sharman
Title: Managing Director

[First Amendment to Unsecured Credit Agreement - Signature Page]

Lloyds Bank

By: /s/ Leah Gorospe
Name: Leah Gorospe
Title: Assistant Manager Banking Operations
Category A G004

By: /s/ Dennis McClellan
Name: Dennis McClellan
Title: Assistant Vice President M040

[First Amendment to Unsecured Credit Agreement - Signature Page]

THE BANK OF NY MELLON

By: /s/ Michael Pensari
Name: Michael Pensari
Title: Managing Director

[First Amendment to Unsecured Credit Agreement - Signature Page]

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

By: /s/ Glenn Schuermann
Name: Glenn Schuermann
Title: Director

[First Amendment to Unsecured Credit Agreement - Signature Page]

BNP Paribas

By: /s/ Nair P. Raghu
Name: Nair P. Raghu
Title: Vice President

By: /s/ Laurent Vanderzyppe
Name: Laurent Vanderzyppe
Title: Managing Director

Commerzbank AG, New York Branch

By: /s/ Paul Vedova
Name: Paul Vedova
Title: Vice President

By: /s/ Barry S. Felgenbavm
Name: Barry S. Felgenbavm
Title: Managing Director

[First Amendment to Unsecured Credit Agreement - Signature Page]

Morgan Stanley Bank, N.A. as lender

By: Harry Cominellis
Name: Harry Comninellis
Title: Authorized Signatory

[First Amendment to Unsecured Credit Agreement - Signature Page]

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ Grainne Pergolini
Name: Grainne Pergolini
Title: Director

EXHIBIT A

SCHEDULE II

Part C

1. Amended and Restated Pledge Agreement dated as of December 19, 2014, as made by XL Insurance (Bermuda) Ltd and XL Re Ltd as Pledgors and Citibank Europe PLC as Pledgee which amends and restates the Pledge Agreement dated November 11, 2009 between the parties.
2. Amended and Restated Pledge Agreement dated as of December 19, 2014, as made by XL Investments Ltd, XL Re Ltd and XL Insurance (Bermuda) Ltd as grantors and in favour of Citibank, N.A which amends and restates the Pledge Agreement dated December 18, 2001 between the parties.
3. 2.30% Senior Notes due December 15, 2018, under the Second Supplemental Indenture, dated November 21, 2013, to the Indenture dated September 30, 2011 among XL Group plc, XL Group Ltd. (n/k/a XLIT Ltd.) and Wells Fargo Bank, National Association, as Trustee.
4. 5.25% Senior Notes due December 15, 2043, under the Second Supplemental Indenture, dated November 21, 2013, to the Indenture dated September 30, 2011 among XL Group plc, XL Group Ltd. (n/k/a XLIT Ltd.) and Wells Fargo Bank, National Association, as Trustee.
5. Credit Facility Agreement dated December 30, 2014 between XL Insurance (Bermuda) Ltd and ING Bank N.V., London Branch.
6. Facility and Fee Letter dated December 30, 2014 from Citibank Europe plc to XL Insurance (Bermuda) Ltd relating to the Insurance Letter of Credit – Master Agreement, dated 11 November 2009, between XL Insurance (Bermuda) Ltd and Citibank Europe PLC.

Part D

1. Floating Charge dated August 1, 2011 by XL Insurance (Bermuda) Ltd in Favour of XL Insurance Company Limited.
2. Floating Charge to be entered into by XL Insurance (Bermuda) Ltd in Favour of XL Insurance Company Limited replacing the Floating Charge, dated December 31, 2010 and the Floating Charge dated August 1, 2011.

Exhibit 10.81

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (this "Agreement") is made as of the 15th day of December 2014, by and among ARX HOLDING CORP., a Delaware corporation (the "Company"); THE PROGRESSIVE CORPORATION, an Ohio corporation ("Progressive"); XL RE LTD., a Bermuda company ("XL"); FASTEAU INSURANCE HOLDING, LLC, a Delaware limited liability company ("Fasteau Holding"); MARC FASTEAU, an individual ("Fasteau"); MARC FASTEAU, AS TRUSTEE OF THE MARC FASTEAU 2012 IRREVOCABLE TRUST ("2012 Trustee"); MARC FASTEAU, AS TRUSTEE OF THE ALEXIS FASTEAU 2008 IRREVOCABLE TRUST ("2008 Trustee," and together with Fasteau, 2012 Trustee and Fasteau Holding, the "Fasteau Group"); FLEXPOINT FUND, L.P., a Delaware limited partnership ("Flexpoint"); NEW CAPITAL PARTNERS PRIVATE EQUITY FUND, L.P., a Delaware limited partnership ("New Capital"); GREGORY E. STEWART, an individual ("Stewart"); and STEWART INSURANCE HOLDINGS, LLLP, a Florida limited liability limited partnership ("Stewart Holdings") (XL, Fasteau Holding, Fasteau, 2008 Trustee, 2012 Trustee, Flexpoint, New Capital, Stewart and Stewart Holdings, are referred to herein, individually, as a "Selling Shareholder" and, collectively, as the "Selling Shareholders").

W I T N E S S E T H:

WHEREAS, Progressive currently holds, directly or indirectly, a 5.0% equity interest in the Company; and

WHEREAS, Progressive desires to acquire a controlling interest in the Company by acquiring additional shares of the Company's capital stock; and

WHEREAS, each of the Selling Shareholders desires to sell to Progressive some or all of its/his shares of the Company's capital stock; and

WHEREAS, Progressive and the Selling Shareholders have reached an agreement on the terms and conditions pursuant to which Progressive will acquire from the Selling Shareholders certain or all of their shares of the Company's capital stock and on various other matters, as set forth herein;

NOW, THEREFORE, in consideration of the above recitals, the mutual promises and covenants hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

As used in this Agreement, the following terms shall have the following meanings:

"Accredited Investor" shall have the meaning specified in Section 5.9.

"Adjusted Tax Distributions" shall have the meaning specified in the SHH LLC Agreement.

"Affiliate" shall mean, with respect to any Person, (a) any other Person that, directly or indirectly, controls, is controlled by, or is under common control with the Person first mentioned, and (b) in the case of a Person who is a natural person, his or her spouse, issue, or estate, and any trust entirely for the benefit of his or her spouse and/or issue. For purposes of this definition,

"control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power (i) to vote more than fifty percent (50%) of the voting interests in such Person, or (ii) to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract, or otherwise.

"Agreement" shall mean this document, including all schedules and exhibits hereto.

"ARX Companies" shall have the meaning specified in Section 4.20.

"Audit Report" shall have the meaning specified in Section 2.2(C).

"BDO" shall have the meaning specified in Section 2.2(B).

"Business Days" shall mean each Monday, Tuesday, Wednesday, Thursday and Friday, excluding federal holidays.

"Capital Contributions" shall mean any cash, cash equivalents, promissory obligations, or the Fair Market Value of other property that an Investor Stockholder contributes or is deemed to have contributed to the Company or (prior to June 30, 2012) SHH with respect to the issuance of any Shares or Class A membership units in SHH.

"Certificate of Designation" shall have the meaning specified in Section 4.6(B).

"Certificate of Incorporation" shall have the meaning specified in Section 4.6(B).

"Certificates of Authority" shall have the meaning specified in Section 4.12(B).

"Closing" shall have the meaning specified in Section 2.3(A).

“Closing Balance Sheet” shall have the meaning specified in Section 2.2(B).

“Closing Date” shall have the meaning specified in Section 2.3(A).

“Common Stock” shall have the meaning specified in Section 4.6(A).

“Company” shall have the meaning specified in the Preamble.

“Company Stock” shall have the meaning specified in Section 4.7.

“Contract” shall have the meaning specified in Section 4.13.

“Dispute Period” shall have the meaning specified in Section 2.2(E).

“Distributions” shall mean (i) from and after June 30, 2012, each dividend paid by the Company to a Stockholder with respect to such Person’s Shares, or (ii) prior to June 30, 2012, each distribution made by SHH to its members with respect to such Person’s Class A membership units, in each case whether in cash, property or securities of the Company or SHH, as applicable, and whether by liquidating distribution, dividend or otherwise; provided that Distributions shall not include any recapitalization or exchange of securities of the Company or SHH (whether resulting from the conversion of the Company or SHH or otherwise), any subdivision (by share or unit split or otherwise), any combination (by reverse share or unit split or otherwise) of any outstanding shares or units or any repurchase or redemption of shares or units by the Company or SHH, respectively.

“Draft 2014 Financial Statements” shall have the meaning specified in Section 2.2(B).

“Encumbrance” shall mean any lien, charge, claim, encumbrance, pledge, condition, equitable interest, option, security interest, mortgage, liability, commitment, covenant, right of first

refusal or any other right, agreement or restriction of any kind, whether accrued, absolute, contingent or otherwise, including, without limitation, any restriction on use, voting, transfer, receipt of income or exercise of any other attribute of ownership.

"Enforceability Exceptions" shall mean (a) bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium and other similar laws now or hereafter in effect relating to or affecting the rights of creditors of insurance companies or creditors' rights generally; and (b) general principles of equity (regardless of whether considered in a proceeding at law or in equity).

"Equity Proceeds" shall have the meaning specified in Section 9.2.

"Fair Market Value" shall have the meaning specified in Section 9.3.

"Fasteau" shall have the meaning specified in the Preamble.

"Fasteau Group" shall have the meaning specified in the Preamble.

"Fasteau Holding" shall have the meaning specified in the Preamble.

"First Reference Date" shall have the meaning specified in Section 2.2(A).

"Flexpoint" shall have the meaning specified in the Preamble.

"Fourth Amended Stockholders' Agreement" shall mean the Fourth Amended and Restated Stockholders' Agreement, which is to be executed and delivered on the Closing Date by the Company, Progressive and the Remaining Stockholders of the Company, including all supplements, exhibits and amendments thereto, substantially in the form of Exhibit H.

"Fully Diluted Basis" shall mean all of the equity securities of the Company, including all of the issued and outstanding shares of capital stock of the Company, including, without limitation, shares of Common Stock and Series A Preferred Stock, and, without duplication, all shares of Common Stock or Series A Preferred Stock that are issuable upon the exercise or conversion of outstanding in-the-money options, warrants, convertible securities and other in-the-money rights

to acquire any shares of the capital stock of the Company, including (without limitation) any rights granted in connection with any merger, consolidation, acquisition or other transaction involving the Company or any of its Subsidiaries.

"GAAP" means accounting principles generally accepted in the United States in effect from time to time.

"Governmental Authority" means any federal, state, local or foreign government or political subdivision, or any agency or instrumentality thereof, or any self-regulated organization or other non-governmental regulatory authority or quasi-governmental authority (to the extent that the rules, regulations or orders of such organization or authority have the force of Law), or any arbitrator, court or tribunal of competent jurisdiction.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and all of the rules and regulations promulgated thereunder.

"Independent Accounting Firm" shall have the meaning specified in Section 2.2(E).

"Internal Control Letter" shall have the meaning specified in Section 2.2(C).

"IRR" shall have the meaning specified in Section 9.2.

"Investor Contributions" shall have the meaning specified in Section 9.2.

"Investor Distributions" shall have the meaning specified in Section 9.2.

"Investor Stockholders" shall have the meaning specified in Section 9.1.

"Law" or "law" shall mean any statute, law, ordinance, regulation, code, order, constitution, treaty, common law, judgment, decree, or other requirement or rule of law of any Governmental Authority.

"Management Certification" shall have the meaning specified in Section 2.2(G).

“Marketable Securities” shall mean securities (i) issued by an issuer with a public float equal to or greater than $2 billion; (ii) that are of a class of securities listed on major national or international stock exchange; (iii) that constitute, in the aggregate, not more than 2.0% of the outstanding securities of such class; (iv) that are eligible for immediate sale by the distributee pursuant to a registration statement effective under the Securities Act; and (v) are not subject to any contractual or legal limitations on disposition, including any “hold-back” or “lock-up” agreement.

“Marketable Securities Proceeds” shall have the meaning specified in Section 9.2.

“Material Adverse Effect” shall mean any event, occurrence, fact, condition or change that has had, or could reasonably be expected to have, individually or in the aggregate, a material adverse effect on (a) the business, operations, results of operations, prospects (as currently contemplated by the Company’s business plan), financial condition, properties or assets (relative to liabilities) of the Company and its Subsidiaries, taken as a whole, or (b) the ability of the Company or any Selling Shareholder to consummate the transactions contemplated hereby; provided, however, that “Material Adverse Effect” shall not include any event, occurrence, fact, condition, or change, directly or indirectly, arising out of or attributable to (i) any changes, conditions or effects in the United States economy or financial, banking or securities markets in general; (ii) conditions generally affecting the industries in which the Company and its Subsidiaries operate; (iii) any action required or expressly authorized by this Agreement or any action taken (or omitted to be taken) by Progressive or with the written consent of or at the written request of Progressive and the Selling Shareholders; (iv) any changes in applicable Laws or accounting rules (including GAAP and statutory accounting principles) or the enforcement, implementation or interpretation thereof; or (v) the announcement, pendency or completion of the transactions contemplated by this Agreement, including losses or

threatened losses of employees, customers, agents, suppliers, distributors or others having relationships with the Company or its Subsidiaries.

"Maximum Premium" shall have the meaning specified in Section 6.2.

"New Capital" shall have the meaning specified in the Preamble.

"Objection Notice" shall have the meaning specified in Section 2.2(D).

"Option Plan" shall have the meaning specified in Section 4.10.

"Option" shall mean the right and option granted to an employee, former employee or any other person or entity to acquire one or more shares of Company Stock at a fixed price per share or at a price determined by formula.

"Optionees" shall mean have the meaning specified in Section 4.9.

"Parties" or "parties" shall mean the Company, Progressive and the Selling Shareholders.

"PCI" shall mean PC Investment Company, a Delaware corporation.

"Permitted Encumbrance" shall mean the rights, limitations, conditions and covenants contained in the Third Amended Stockholders' Agreement (prior to the Closing Date) or the Fourth Amended Stockholders' Agreement (on or after the Closing Date), and any restrictions on or conditions to transfer imposed by federal or state securities laws.

"Person" shall mean an individual, corporation, limited liability company, partnership, trust, incorporated or unincorporated association, joint venture, joint stock company, Governmental Authority, or other entity of any kind.

"Progressive" shall have the meaning specified in the Preamble.

"Progressive Representatives" shall have the meaning specified in Section 7.3.

"Purchase Price Per Share" shall have the meaning specified in Section 2.2(A).

“Remaining Stockholders” shall mean all entities and persons that hold any shares of Company Stock, or hold any Options to acquire any shares of Company Stock, immediately after the time of Closing, other than Progressive, any of its Affiliates, the Selling Shareholders that are not members of the Fasteau Group and their respective successors and assigns.

“Review Period” shall have the meaning specified in Section 2.2(D).

“Safe Harbour” or “SHH” shall mean Safe Harbour Holdings, LLC, a former Delaware limited liability company that was merged into ARX. For purposes of this Agreement, Safe Harbour and its Subsidiaries shall be considered and treated as wholly-owned Subsidiaries of the Company.

“Second Reference Date” shall have the meaning specified in Section 2.2(A).

“Securities Act” shall mean the Securities Act of 1933, as amended, and all rules and regulations promulgated by the Securities and Exchange Commission thereunder.

“Selling Shareholders” shall have the meaning specified in the Preamble.

“Series A Preferred Stock” shall have the meaning specified in Section 4.6(B).

“Shares” shall have the meaning specified in Section 2.1.

“Special Payment” shall have the meaning specified in Section 9.1.

“SHH LLC Agreement” shall mean the Amended and Restated Limited Liability Company Agreement dated March 26, 2007.

“Stewart” shall have the meaning specified in the Preamble.

“Stewart Holdings” shall have the meaning specified in the Preamble.

“Stockholders” shall have the meaning specified in Section 4.9.

“Subsidiaries” shall have the meaning specified in Section 4.11.

“Tangible Net Book Value” shall mean, without duplication, the consolidated assets of the ARX Companies, including deferred commissions and deferred insurance premium taxes, less its

intangible assets, total liabilities and non-controlling interests, determined in accordance with GAAP from amounts set forth on the 2014 Financial Statements as finally determined in accordance with Section 2.2.

"Taxes" shall mean all federal, state, local, foreign and other income, gross receipts, sales, use, ad valorem, transfer, franchise, registration, profits, license, lease, service, withholding, payroll, employment, unemployment, excise, severance, environmental, stamp, occupation, premium, retaliatory, property (real or personal), or other taxes, fees, assessments or charges of any kind, together with any interest, penalties or additions with respect thereto.

"Termination Date" shall have the meaning specified in Section 13.1(F).

"Third Amended Stockholders' Agreement" shall mean the Third Amended and Restated Stockholders' Agreement dated August 14, 2012, among the Company and each of Company's Stockholders, including all amendments, exhibits, supplements and any successor agreements thereto.

"Third Quarter Financial Statements" shall have the meaning specified in Section 4.17(B).

"Transfer" or "transfer" shall mean (a) when used as a verb, the act of selling, pledging, mortgaging, hypothecating, giving, transferring, creating a security interest, lien or trust (voting or otherwise), assigning, or otherwise encumbering or disposing of, and (b) when used as a noun, any sale, pledge, mortgage, hypothecation, gift, transfer, creation of security interest, lien or trust, any assignment, or other encumbrance or disposition.

"2008 Trustee" shall have the meaning specified in the Preamble.

"2012 Trustee" shall have the meaning specified in the Preamble.

"2012 Purchase Agreement" shall mean the Stock Purchase Agreement dated August 14, 2012, entered into by and between the Company, Progressive, PCI and the Selling Shareholders

named therein, pursuant to which PCI acquired a 4.9% equity interest in the Company, which interest may be transferred to Progressive.

"2013 Financial Statements" shall have the meaning specified in Section 4.17(A).

"2014 Financial Statements" shall have the meaning specified in Section 2.2(C).

"XL" shall have the meaning specified in the Preamble.

ARTICLE II

PURCHASE AND SALE OF SHARES

2.1. Purchase and Sale of Shares

This Agreement contemplates that, at the Closing, on the terms and subject to the conditions set forth herein, an aggregate of 706,858 shares of Company Stock, which shall constitute approximately 61.8% of the issued and outstanding capital stock of the Company on a Fully Diluted Basis as of the Closing Date (collectively, and including any shares of Company Stock resulting from a conversion thereof, the "Shares") will be sold, assigned and transferred to Progressive. Specifically, at Closing, each of the Selling Shareholders shall sell, assign and transfer to Progressive, and Progressive shall acquire from each Selling Shareholder, good and marketable title to the number and type of Shares set forth opposite such Selling Shareholder's name on Exhibit A hereto for the Purchase Price Per Share determined as provided in Section 2.2 hereof. All of such Shares shall be sold free and clear of any and all Encumbrances, other than Permitted Encumbrances.

2.2. Purchase Price Per Share.

(A) The Purchase Price Per Share of the Shares to be acquired by Progressive hereunder will be equal to the sum of (i) 2.6 multiplied by the Tangible Net Book Value of the Company as of December 31, 2014 (the "First Reference Date"), determined in accordance with the procedures set forth in Section 2.2(B)-(F) hereof, plus (ii) an additional amount equal to the exercise price of

all in-the-money options to purchase Company Stock outstanding as of December 31, 2014, divided by (iii) the total number of outstanding shares of Company Stock, determined on a Fully Diluted Basis, as of the date that is ten (10) Business Days prior to the Closing Date (the “Second Reference Date”). To illustrate application of this formula, pro forma calculations of the Tangible Net Book Value of the Company as of September 30, 2014, and of the resulting Purchase Price Per Share as of that date, are set forth in Exhibit B attached hereto.

(B) The Tangible Net Book Value of the Company as of the First Reference Date will be determined in accordance with GAAP, and will be based on the consolidated balance sheet of the Company and its Subsidiaries as of such date that is included in the 2014 Financial Statements, which are to be prepared by the Company and audited by BDO USA, LLC (“BDO”) in accordance with and as the same may be adjusted pursuant to this Section 2.2 (the “Closing Balance Sheet”). Promptly after December 31, 2014, the Company will prepare consolidated balance sheets and consolidated statements of shareholders' equity as of December 31, 2014 and consolidated income statements and consolidated statements of cash flows for the twelve-month period then ended for the Company and its consolidated Subsidiaries in accordance with GAAP applied on a basis consistent with the application of GAAP by the Company in preparation of the 2013 Financial Statements, except as necessary to correct any errors and improve accuracy (collectively, the “Draft 2014 Financial Statements”), and shall use its best efforts to complete the Draft 2014 Financial Statements, and provide Progressive and the Selling Shareholders with copies thereof, together with an explanation of any material or unusual changes or variations in the financial balances or results of operations from the Third Quarter Financial Statements, no later than January 31, 2015. Progressive and the Selling Shareholders shall have twenty (20) Business Days to review and raise objections with the Company to the Draft 2014 Financial Statements, which objections shall be

delivered in writing to the other Parties and shall be described in reasonable detail. The Parties shall use their commercially reasonable efforts to resolve any such objections during such twenty (20) Business Day period, and if such objections are resolved, the Company shall deliver an update of the Draft 2014 Financial Statements to BDO. In the event the Parties are not able to resolve any such objections during such twenty (20) Business Day period, the Company shall deliver such objections to BDO for BDO's review and consideration during its audit of the Draft 2014 Financial Statements.

(C) The Company will use its reasonable best efforts to deliver to Progressive, no later than March 15, 2015, (i) an audited consolidated balance sheet and consolidated statement of shareholders' equity as of December 31, 2014 and the related consolidated income statement and consolidated statement of cash flows for the twelve-month period then ended of the Company and its Subsidiaries (collectively, the "2014 Financial Statements") prepared in accordance with GAAP applied using the same accounting methods, practices, principles, policies and procedures, with consistent classifications, judgments and valuation and estimation methodologies that were used in the preparation of the 2013 Financial Statements, except as necessary to correct any errors and improve accuracy, and provided the applicable GAAP standards were properly selected and applied; (ii) the unqualified opinion addressed to the Company from BDO ("Audit Report"), confirming that it has audited in accordance with the standards of the Public Company Accounting Oversight Board (United States) the 2014 Financial Statements, that such financial statements were prepared in accordance with GAAP, as stated above; that such financial statements fairly present, in all material respects, the financial condition, results of operation and cash flows of the Company and its consolidated subsidiaries as at the end of and for the period represented thereby; and that, during the course of its audit of the Company's 2014 Financial Statements, it did not become aware of any

material deficiencies, misstatements or omissions in the reported information; and (iii) an Internal Control Letter addressed to the Company from BDO confirming that no material weaknesses or significant deficiencies in the Company's and its Subsidiaries' systems of internal control or any other material irregularity in accounting or control came to its attention since year end 2013, or, to its knowledge, exists as of the date of the Internal Control Letter ("Internal Control Letter").

(D) Progressive and the Selling Shareholders shall have a period of ten (10) Business Days after receipt of the audited 2014 Financial Statements, Audit Report and Internal Control Letter (the "Review Period") within which to review and raise objections to the 2014 Financial Statements. If within such period of ten (10) Business Days neither Progressive nor any Selling Shareholder has delivered to the other Parties written notice of objection to the 2014 Financial Statements (which notice shall state the basis of objection in reasonable detail) (the "Objection Notice"), then the 2014 Financial Statements shall be deemed approved, be binding and conclusive on the Parties and used in computing the Tangible Net Book Value and any other computations provided herein.

(E) If a Party delivers to the other Parties an Objection Notice in accordance with Section 2.2(D), the Company, Progressive, and the Selling Shareholders agree to work together, in good faith, to promptly resolve any items identified in the Objection Notice that may affect the Closing Balance Sheet and that are necessary to determine the Purchase Price Per Share. In the event that Progressive, the Company and the Selling Shareholders are unable to resolve to their mutual satisfaction any such differences within ten (10) Business Days of the delivery of the Objection Notice ("Dispute Period"), then the Parties shall engage an independent, nationally recognized accounting firm mutually acceptable to Progressive, the Company, and the Selling Shareholders

---

(the “Independent Accounting Firm”) to resolve the items included in the Objection Notice that remain in dispute, and all other items shall be deemed final and binding on the Parties.

(F) Within ten (10) Business Days following the end of the Dispute Period, the Company, Progressive and the Selling Shareholders shall submit their proposed resolutions of the items in dispute to the Independent Accounting Firm. The Independent Accounting Firm shall have thirty (30) days to deliver its determination on each of the items set forth in the Objection Notice that remain in dispute. The Independent Accounting Firm shall be instructed to only resolve the matters identified in the Objection Notice that are submitted to the Independent Accounting Firm and not to investigate any other matters. During the thirty (30) day review by the Independent Accounting Firm, the Parties shall make available to the Independent Accounting Firm such individuals and such information, books and records as may be reasonably requested by the Independent Accounting Firm to make its determination. If GAAP allows more than one method and the Independent Accounting Firm finds that one of those methods is preferable to the other(s) under GAAP, then the Independent Accounting Firm will choose the more preferable method. The determination by the Independent Accounting Firm shall be final and binding on the Parties, except in the case of fraud or manifest error, and such determination shall be used in computing the Tangible Net Book Value and any other computations provided for herein. The Independent Accounting Firm shall act as an expert, not as an arbitrator, in resolving the dispute. The proceeding before the Independent Accounting Firm shall be an expert determination under the law governing expert determination and appraisal proceedings. All costs and expenses, including, fees and disbursements, of the Independent Accounting Firm shall be borne equally by the Company, Progressive and the Selling Shareholders as a group (shared on a pro rata basis), each of which shall bear one-third (1/3) of such costs and expenses.

(G) At least five (5) days prior to the Closing, the Company will prepare and deliver to Progressive and the Selling Shareholders a statement, in form attached hereto as Exhibit B, and signed by the Company's Chief Executive Officer and the principal financial or accounting officer of the Company, certifying to Progressive and the Selling Shareholders the Company's Tangible Net Book Value as of the First Reference Date and detailing the calculation of the total number of outstanding shares of Company Stock (determined on a Fully Diluted Basis) as of the Second Reference Date, and the calculation of the Purchase Price Per Share (the "Management Certification").

2.3. Closing, Delivery and Payment.

(A) The closing of the purchase and sale of the Shares pursuant to this Agreement (the "Closing") shall take place at 10:00 a.m. on the date (the "Closing Date") that is the first (1st) Business Day of the calendar month after the Purchase Price Per Share has been determined in accordance with Section 2.2, the Parties have secured all necessary regulatory approvals for the consummation of the transactions contemplated hereby (as contemplated by Section 10.1) and all other conditions to Closing have been satisfied or waived in writing (other than those conditions that by their nature are to be satisfied at the Closing, and subject to the satisfaction or written waiver of such conditions), at the offices of the Company, or at such other time or place as the Company and Progressive may mutually agree.

(B) At the Closing, subject to the terms and conditions hereof, each of the Selling Shareholders will deliver to Progressive certificates for all of the Shares to be sold by such Selling Shareholder as set forth on Exhibit A, with all required transfer tax stamps attached, accompanied by irrevocable stock powers for the Shares, duly endorsed to Progressive or in blank, and signed by or on behalf of the appropriate Selling Shareholder, which, in the aggregate, will represent all

of the Shares to be purchased by Progressive at the Closing. Following receipt of such share certificates by Progressive, Progressive will deliver them to the Company for cancellation, and the Company will cancel such share certificates and will deliver to Progressive a new share certificate representing the total number of Shares acquired by Progressive pursuant to this Agreement. Contemporaneously therewith, subject to the terms and conditions hereof, Progressive shall deliver the aggregate Purchase Price Per Share payable to each of the Selling Shareholders for the Shares sold by such Selling Shareholders to Progressive hereunder (which are as set forth on Exhibit A) by wire transfer of immediately available funds to such account or accounts as the Selling Shareholders shall designate not less than five (5) Business Days prior to the Closing Date.

(C) In addition, at Closing:

(i) The Company shall deliver to Progressive (a) good standing certificates, dated as of a date not more than five (5) days prior to the Closing Date, for the Company and each of its Subsidiaries, issued by the Office of the Secretary of State for the state(s) of incorporation of the respective companies, and (b) copies of each Certificate of Authority then held by the Company and/or any of its Subsidiaries as listed on Exhibit F.

(ii) The Company and the Selling Shareholders shall execute and deliver to Progressive a certificate or certificates referred to in Section 11.3, dated the Closing Date.

(iii) Progressive shall execute and deliver to the Company and the Selling Shareholders a certificate referred to in Section 12.3 dated the Closing Date.

(iv) The Selling Shareholders will deliver to Progressive written opinions from their respective legal counsel with respect to the matters described at Sections 3.1, 3.2, 3.3, 3.4, 3.5 and 3.7(a) (subject to usual and customary qualifications, exceptions and assumptions), substantially in the forms attached as Exhibit J.

(v) The Company will deliver to Progressive a written opinion from its legal counsel as to the matters described in Sections 4.1, 4.2, 4.3, 4.5, 4.6, 4.7, 4.8, 4.9, 4.10, 4.11 and 4.12 hereof (subject to usual and customary qualifications, exceptions and assumptions), in form substantially similar to the form of the opinion delivered by the Company to Progressive at the closing of the transactions contemplated by the 2012 Purchase Agreement.

(vi) Progressive will deliver to the Company and the Selling Shareholders a written opinion from its General Counsel as to the matters described in Sections 5.1, 5.2, 5.3 and 5.4 hereof (subject to usual and customary qualifications, exceptions and assumptions), in form and substance reasonably acceptable to General Counsel of the Company.

(vii) Immediately after and subject to the acquisition by Progressive of all of the tendered Shares of the Selling Shareholders, the Company, the Remaining Stockholders (subject to the proviso contained in Section 11.8) and Progressive shall deliver counterparts of the Fourth Amended Stockholders' Agreement, which shall have been executed by the Company, Progressive and all Remaining Stockholders, including all individuals who are holding options to acquire any shares of the Company's capital stock.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF SELLING SHAREHOLDERS

Each of the Selling Shareholders hereby represents and warrants to Progressive that, as of the date of this Agreement, as to itself/himself only and not as to any other Selling Shareholder, except as set forth on the Schedule of Exceptions attached hereto (which specifically identifies the relevant subsection(s) hereof):

3.1. Organization; Good Standing. If such Selling Shareholder is a corporate entity, limited liability company, partnership or other artificial entity, such Selling Shareholder has been

duly organized and is validly existing and in good standing under the laws of its state or other jurisdiction of organization, and has all requisite corporate, limited liability company or other power and authority to own and operate its properties and assets, and to carry on its business as now conducted, except in each case for any such failure that would not have a material adverse effect on the ability of such Selling Shareholder to consummate the transactions contemplated to be consummated by such Selling Shareholder under this Agreement.

3.2. Authorization. Such Selling Shareholder has all necessary right and authority to enter into this Agreement and, if such Selling Shareholder is a member of the Fasteau Group, the Fourth Amended Stockholders' Agreement and to carry out all of its/his respective obligations hereunder and thereunder, and to sell to Progressive all of the Shares that such Selling Shareholder has agreed to convey to Progressive hereunder, as set forth on Exhibit A hereto, for the consideration herein provided. All corporate, limited liability company or other action on the part of such Selling Shareholder, its officers, directors, members, managers, partners and/or stockholders (as applicable), necessary to authorize its or his execution and delivery of this Agreement and, if such Selling Shareholder is a member of the Fasteau Group, the Fourth Amended Stockholders' Agreement, and the performance of all obligations of such Selling Shareholder hereunder and thereunder has been taken, and this Agreement and, if the Selling Shareholder is a member of the Fasteau Group, the Fourth Amended Stockholders' Agreement, when executed and delivered, will constitute valid and legally binding obligations of such Selling Shareholder, enforceable in accordance with their terms, subject to the Enforceability Exceptions. The sale to Progressive of the Shares provided for hereunder is not and will not be subject to any preemptive rights, rights of first refusal, co-sale rights, tag-along rights or other rights, restrictions or limitations that have not been properly waived.

3.3. Stock Ownership. Such Selling Shareholder is the sole owner of, and owns, beneficially and of record, all of the Shares to be conveyed by it/him to Progressive hereunder, as set forth in Exhibit A hereto, free and clear of any and all Encumbrances, other than Permitted Encumbrances. By the deliveries to be made at Closing, and the other actions to be taken at or prior to the Closing, Progressive shall own, beneficially and of record, good and marketable title to all of such Shares, free and clear of any and all Encumbrances, other than Permitted Encumbrances and any Encumbrances placed on the Shares by or pursuant to any actions taken by Progressive.

3.4. Absence of Conflict. Neither the execution and delivery of this Agreement and, if such Selling Shareholder is a member of the Fasteau Group, the Fourth Amended Stockholders' Agreement by such Selling Shareholder, nor the performance by such Selling Shareholder of any of its/his obligations hereunder or thereunder, (i) conflicts with or results in, or will conflict with or result in, a breach or violation of any article, by-law, regulation, judgment, decree, order, writ, injunction, statute, rule or regulation applicable to such Selling Shareholder, or (ii) conflicts with or constitutes, or will conflict with or constitute, a default under or a breach or violation of any of the terms of any note, bond, mortgage, deed, trust, indenture, instrument or agreement to which such Selling Shareholder is a party, or to which such Selling Shareholder owes any duty or obligation, or by which such Selling Shareholder, or any of its/his respective assets or property, is bound.

3.5. Governmental and Third Party Consents. No consent, approval, qualification, order or authorization of, or filing with or notice to, any Governmental Authority or other public or private party is required on the part of such Selling Shareholder in connection with such Selling Shareholder's valid execution, delivery and performance of this Agreement and, if the

Selling Shareholder is a member of the Fasteau Group, the Fourth Amended Stockholders' Agreement, and the offer and sale of the Shares to Progressive by such Selling Shareholder, except for those filings, authorizations and approvals described in Sections 8.4 and 8.5 hereof.

3.6. Absence of Certain Litigation. There is no action, suit, proceeding, or investigation pending or, to the knowledge of such Selling Shareholder, threatened as of the date of this Agreement, against such Selling Shareholder that questions or challenges the validity of this Agreement or, if such Selling Shareholder is a member of the Fasteau Group, the Fourth Amended Stockholders' Agreement, or the right of such Selling Shareholder to enter into this Agreement or, if such Selling Shareholder is a member of the Fasteau Group, the Fourth Amended Stockholders' Agreement, or to consummate any of the transactions contemplated hereby or thereby, including the sale of Shares to Progressive as herein provided.

3.7. Offering. (a) Subject to the truth and accuracy of Progressive's representations set forth in Sections 5.1 to 5.11 of this Agreement, the offer and sale of the Shares to Progressive by such Selling Shareholder, as contemplated by this Agreement, are exempt from the registration requirements of the Securities Act, and (b) none of the Selling Shareholders, and no agent or other person acting on its/his/her or their behalf, will take any action that would cause the loss of such exemption.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND THE FASTEAU GROUP

The Company hereby represents and warrants, and each member of the Fasteau Group hereby represents and warrants on a pro rata basis (based on the ratio of the number of Shares to be conveyed hereunder by the Fasteau Group, in the aggregate, to the total number of Shares to

be conveyed hereunder by all of the Selling Shareholders as shown on Exhibit A), to Progressive that, as of the date of this Agreement, except as set forth on the Schedule of Exceptions attached hereto (which specifically identifies the relevant subsection(s) hereof):

4.1. Organization; Good Standing; Qualification. The Company is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware, and has all requisite corporate power and authority to own and operate its properties and assets and to carry on its business as now conducted and as presently proposed to be conducted. The Company is duly qualified and is authorized to transact business and is in good standing as a foreign corporation in each jurisdiction in which it presently conducts business and in which the failure to be so qualified would have a Material Adverse Effect.

4.2. Authorization. The Company has all necessary power and authority to enter into this Agreement and the Fourth Amended Stockholders' Agreement and to perform all of its obligations hereunder and thereunder. All corporate and other action on the part of the Company, its officers, directors and stockholders, necessary to authorize its execution and delivery of this Agreement and the Fourth Amended Stockholders' Agreement, and the performance by the Company of all of its obligations hereunder and thereunder, has been taken, and this Agreement and the Fourth Amended Stockholders' Agreement, when executed and delivered, will constitute the valid and legally binding obligations of the Company, enforceable in accordance with their terms, subject to the Enforceability Exceptions.

4.3. Absence of Conflict. Neither the execution and delivery of this Agreement and the Fourth Amended Stockholders' Agreement by the Company, nor the performance by the Company of any of its obligations hereunder or thereunder, (a) conflicts with or results in, or will conflict

with or result in, a breach or violation of any article, by-law, regulation, judgment, decree, order, writ, injunction, statute, rule or regulation applicable to the Company, or (b) conflicts with or constitutes, or will conflict with or constitute, a default under or a breach or violation of any of the terms of any note, bond, mortgage, deed, indenture, instrument or agreement to which the Company is a party or by which the Company, or any of its assets or property, is bound.

4.4. Articles and Bylaws. The Certificate of Incorporation, Bylaws and Certificate of Designation of the Company, each as amended to date, true, complete and current copies of which have heretofore been delivered to Progressive, are in effect on the date hereof and no amendment or modification thereof will be made prior to the Closing.

4.5. Governmental and Third Party Consents. No consent, approval, qualification, order or authorization of, or filing with or notice to, any Governmental Authority or other public or private party is required on the part of the Company or any of its Subsidiaries in connection with the Company's valid execution, delivery and performance of this Agreement and the Fourth Amended Stockholders' Agreement and the offer and sale of the Shares to Progressive as provided hereunder, except for (a) the filing of a premerger notification report, and any related information, documents or materials, by the Company under the HSR Act, and (b) any filings required to be made with the Delaware, Florida or Texas Departments of Insurance.

4.6. Capitalization of the Company. The authorized capital of the Company consists solely of:

(A) Common Stock. 1,500,000 shares of common stock, par value $.01 per share ("Common Stock"), of which 241,500 shares have been issued and 197,000 shares are outstanding.

(B) Preferred Stock. 950,000 shares of Preferred Stock, par value $.01 per share, all of which have been designated "Series A Convertible Preferred Stock," of which 942,625 shares have been issued and 921,125 shares are outstanding (the "Series A Preferred Stock"). The rights, privileges and preferences of the Series A Preferred Stock are as stated in the Company's Amended and Restated Certificate of Incorporation, as filed with the Delaware Secretary of State on October 8, 1997, as amended on November 2, 2007, April 2, 2008, December 6, 2011 and July 24, 2012 ("Certificate of Incorporation"), and supplemented by the Certificate of Designation, Number, Voting Powers, Preferences and Rights of Series A Convertible Preferred Stock of ARX Holding Corp., filed with the Delaware Secretary of State on October 8, 1997, and amended on December 6, 2011 and July 24, 2012 ("Certificate of Designation"). Each share of Series A Preferred Stock is convertible into one (1) share of Common Stock, subject to adjustment as set forth in the Certificate of Designation.

4.7. Authorization and Issuance. All of the outstanding shares of Common Stock and Series A Preferred Stock (collectively, the "Company Stock") have been duly authorized and validly issued, are fully paid and non-assessable, and were issued in compliance with the registration or qualification provisions of the Securities Act and any relevant state securities laws or pursuant to valid exemptions therefrom.

4.8. Valid Issuance of the Shares; Progressive Ownership. All of the Shares to be purchased by Progressive hereunder have been duly and validly authorized and issued in accordance with all applicable Law, and are fully paid and non-assessable and, as of the Closing, will constitute approximately 61.8% of the issued and outstanding capital stock of the Company, calculated on a Fully Diluted Basis.

4.9. Ownership of Company Stock; Options, etc. All of the outstanding shares of Company Stock are owned by the Company's stockholders identified on Exhibit C hereto ("Stockholders"), in the respective numbers specified in said Exhibit. All outstanding options, warrants and other rights to acquire any shares of Company Stock are held by the persons identified in Exhibit D hereto ("Optionees"). The number of Company Shares which may be purchased by each such Optionee upon exercise of his or her respective Option(s) is set forth in Exhibit D.

4.10. Outstanding Options and Rights. Except for (i) the conversion privileges relating to the Series A Preferred Stock, (ii) the rights provided to Progressive in this Agreement, (iii) currently outstanding options to purchase 26,000 shares of Common Stock granted to employees of the Company pursuant to the Company's 2007 Stock Option Plan, as listed in Exhibit D (the "Option Plan"), and (iv) rights and options provided for in the Third Amended Stockholders' Agreement (prior to the Closing) and Fourth Amended Stockholders' Agreement (on or after the Closing), there are no outstanding options, warrants, debentures, rights (including conversion or preemptive rights and rights of first refusal), proxy or stockholder agreements or agreements of any kind for the purchase or acquisition from the Company of, or that requires or may require the Company to issue, any of its securities, upon exercise, conversion or otherwise. No additional Options or other rights to acquire any shares of the Company's capital stock will be granted by the Company without the prior written consent of Progressive.

4.11. Subsidiaries. Except for the entities identified on Exhibit E hereto (collectively, the "Subsidiaries"), the Company does not own or control, directly or indirectly, any interest in any other corporation, partnership, limited liability company, association, or other business entity, other than fixed-income securities held in the Company's investment portfolios. Each of the Subsidiaries

is a corporation duly organized, validly existing, and in good standing under the laws of the state of its organization, and has all requisite corporate power and authority to own and operate its properties and assets and to carry on its business as now conducted and as presently proposed to be conducted, except where the failure to meet any of those requirements does not have a Material Adverse Effect. Except as specified in the Schedule of Exceptions, all of the outstanding capital stock of each of the Subsidiaries is owned directly by the Company or indirectly through one or more wholly-owned subsidiaries of the Company, and is free and clear of all Encumbrances. There are no outstanding rights, agreements, warrants or options to acquire any of the capital stock of, or any other interest in, any Subsidiary, or to acquire any security or other instrument exercisable for or convertible into any capital stock of any Subsidiary or any such right, interest, agreement, warrant or option.

4.12. Licenses, Permits and Certificates of Authority.

(A) The Company and each of its Subsidiaries has all franchises, permits, licenses and certificates of authority that are necessary for the conduct of its business as now being conducted by it. Neither the Company nor any of its Subsidiaries is in material default under, or out of compliance in any material respect with, any of such franchises, permits, licenses or certificates of authority or has received any notice alleging any such default or non-compliance exists, nor are there any proceedings pending, or to the knowledge of the Company or any member of the Fasteau Group threatened, to revoke, suspend, limit or restrict any such franchise, permit, license or certificate of authority.

(B) The Company or its Subsidiaries hold, and as of the Closing Date will hold, each of the certificates of authority identified in Exhibit F hereto (the “Certificates of Authority”). The Certificates of Authority authorize the Company or its Subsidiaries to write property and casualty insurance (including homeowner’s insurance) in each of the states identified in Exhibit F. True, complete and correct copies or other verifiable evidence of all Certificates of Authority held by the Company and its Subsidiaries have been delivered to Progressive. None of the Certificates of Authority has been suspended at any time, and each of the Certificates of Authority is currently unencumbered, in good standing and in full force and effect. The Certificates of Authority will be maintained unencumbered, in good standing and in full force and effect through the Closing Date. Between January 1, 2010 and the date of this Agreement, neither the Company, nor any of its Subsidiaries, has been subject to any market conduct exams by any insurance or other regulatory authority.

(C) Neither the Company nor any of its Subsidiaries writes or has written insurance coverage for or that is applicable to asbestos or environmental risks or exposures, or has incurred any liability for any such risks or exposures, as an underwriter or otherwise.

4.13. Compliance With Instruments and Laws. Neither the Company nor any of its Subsidiaries is in violation or default of any provision of its Articles or Certificate of Incorporation or Bylaws (or other organizational documents), or in violation of or default, in any material respect, under any note, bond, mortgage, contract, indenture, agreement or instrument to which it is a party or by which it is bound (individually, a “Contract” and, collectively, “Contracts”) or, to the Company’s and each member of the Fasteau Group's knowledge, of any federal or state judgment, order, writ, decree, statute, rule, regulation or restriction applicable to the Company or any of its

Subsidiaries, and the Company and each of its Subsidiaries have made all required filings with, and have otherwise complied, in all material respects, with, all Laws to which they are subject.

4.14. Litigation. There is no action, suit, proceeding, or investigation pending or, to the Company's knowledge and to the knowledge of the Fasteau Group, threatened as of the date of this Agreement, against the Company, any of its Subsidiaries or any of the Selling Shareholders that questions the validity of this Agreement or the Fourth Amended Stockholders' Agreement, or the right of the Company or any of the Selling Shareholders to enter into this Agreement or the Fourth Amended Stockholders' Agreement, or to consummate any of the transactions contemplated hereby or thereby, or that could reasonably be expected to result in a loss to the Company or any of its Subsidiaries (after reinsurance) in excess of $2.5 million or that could reasonably be expected to have, either individually or in the aggregate, any Material Adverse Effect. Except as specified in the Schedule of Exceptions, neither the Company nor any of its Subsidiaries is a party to or, to the knowledge of the Company and the Fasteau Group, named in or subject to any order, writ, injunction, judgment, or decree of any court, government agency, or instrumentality which could have a Material Adverse Effect.

4.15. Information Delivered to Progressive; Knowledge of Certain Circumstances.

(A) The written information and materials previously delivered, or to be delivered, to Progressive by or on behalf of the Company or its Subsidiaries and/or the Selling Shareholders was, or will be, prepared in good faith by the Company, such Subsidiary or the Selling Shareholders (as applicable) and, together with the information set forth herein, does not and will not, to the Company's knowledge and to the knowledge of each member of the Fasteau Group, contain any

untrue statement of a material fact, nor to the knowledge of the Company or any member of the Fasteau Group does it or will it omit to state a material fact necessary to make the statements herein or therein not misleading.

(B) Except as set forth in the Schedule of Exceptions, neither the Company nor any member of the Fasteau Group has received any notice of, or is aware of, any event or set of facts or circumstances involving or relating to the Company or any of its Subsidiaries that could reasonably be expected to have or result in a Material Adverse Effect.

4.16. Title to Property and Assets. Except (i) as specified in the Schedule of Exceptions, (ii) for liens for current taxes not yet delinquent, (iii) for liens imposed by law and incurred in the ordinary course of business for obligations not past due to laborers, materialmen and the like, (iv) for liens in respect of pledges or deposits under workers' compensation or state insurance laws or similar legislation or (v) for minor defects in title, none of which, individually or in the aggregate, materially interferes with the use of such property, the Company and its Subsidiaries have good and marketable title to all of their respective properties and assets free and clear of all Encumbrances.

4.17. Financial Statements; Internal Controls.

(A) The Company has delivered to Progressive audited consolidated financial statements (balance sheet, statement of income, statement of stockholders' equity and statement of cash flows) of the Company and its Subsidiaries at December 31, 2013 and for the fiscal year then ended (the “2013 Financial Statements”). The 2013 Financial Statements have been prepared in accordance with GAAP applied on a consistent basis throughout the periods indicated. The 2013 Financial Statements fairly and accurately present, in all material respects, the consolidated financial

condition, operating results and cash flows of the Company and its Subsidiaries as of December 31, 2013, and for the twelve-month period then ended, and is free of material errors, misstatements and omissions. Except as set forth in the 2013 Financial Statements and as specified in the Schedule of Exceptions, the Company and its Subsidiaries have no material liabilities, contingent or otherwise, other than liabilities incurred in the ordinary course of business subsequent to December 31, 2013, which, individually and in the aggregate, are not material to the financial condition or operating results of the Company and its Subsidiaries taken as a whole. The Company and its Subsidiaries maintain and will continue to maintain a standard system of accounting established and administered in accordance with GAAP.

(B) The Company has delivered to Progressive unaudited consolidated financial statements (balance sheet, statement of income, statement of stockholders' equity and statement of cash flows) of the Company and its Subsidiaries at September 30, 2014 and for the three- and nine-month periods then ended (the "Third Quarter Financial Statements"). The Third Quarter Financial Statements have been prepared in accordance with GAAP applied on a basis consistent with the 2013 Financial Statements. The Third Quarter Financial Statements fairly and accurately present in all material respects the consolidated financial condition, operating results and cash flows of the Company and its Subsidiaries as of September 30, 2014, and for the three- and nine- month periods then ended, and are free of material errors, misstatements and omissions. Except as set forth in the Third Quarter Financial Statements and as specified in the Schedule of Exceptions, the Company and its Subsidiaries had no material liabilities, contingent or otherwise, other than liabilities incurred in the ordinary course of business subsequent to September 30, 2014, which, individually and in the aggregate, are not material to the financial condition or operating results of the Company and its Subsidiaries taken as a whole.

(C) The 2014 Financial Statements to be prepared by the Company pursuant to Section 2.2 (B), when delivered to Progressive, will have been prepared in accordance with GAAP applied on a consistent basis with the Company's 2013 Annual Statements, and will fairly and accurately present, in all material respects, the consolidated financial condition, operating results and cash flows of the Company and its Subsidiaries as of December 31, 2014, and for the twelve-month period then ended, and will be free of material errors, misstatements and omissions. Except as set forth in the 2014 Financial Statements, the Company and its Subsidiaries will have no material liabilities, contingent or otherwise as of December 31, 2014.

(D) Since December 31, 2013, there has not been, and from the date hereof through the Closing Date, there will not be, any contribution or other addition to the consolidated stockholders' equity of the Company and its Subsidiaries, or any transaction that has or will have the purpose or effect of increasing the consolidated stockholders' equity of the Company and its Subsidiaries, other than income generated by the Company's Subsidiaries in the ordinary course of their respective property and casualty insurance businesses and recurring income and realized and unrealized capital gains in the investment portfolios of the Company and its Subsidiaries.

(E) Neither the Company nor any of its Subsidiaries is a party to or bound by any note, bond, debenture or other agreement or instrument that contains any provision pursuant to which the rights or obligations of the Company or any of its Subsidiaries, as applicable, thereunder are or can be accelerated or are or can be in any manner altered as a result of any change in control of the Company or any such Subsidiary; nor would the acquisition of control of the Company or any of its Subsidiaries by Progressive or any of its Affiliates constitute a breach of or default under, or require the payment of any additional license fee or other sum under, any software license or other agreement or instrument to which the Company or any of its Subsidiaries is subject or bound.

(F) The Company and its Subsidiaries maintain a system of internal control that is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP or statutory financial principles, as applicable, and in accordance with a recognized framework of internal control. To the knowledge of the Company and each member of the Fasteau Group, there are no material weaknesses or significant deficiencies in such system of internal control. Each of the Subsidiaries has duly complied with, and is currently in compliance with, the provisions of the NAIC's Model Audit Rule and has taken all actions, and has made all filings with the appropriate state insurance regulatory bodies required under that Rule.

4.18. Absence of Certain Changes. Except as specified in the Schedule of Exceptions, since December 31, 2013, there has not been:

(A) Any change in the assets, liabilities, financial condition, or operating results of the Company and its Subsidiaries from that reflected in the 2013 Financial Statements, except changes in the ordinary course of business that have not had and could not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect;

(B) Any damage, destruction or loss, whether or not covered by insurance, affecting the business, operations, properties, assets, prospects, or financial condition of the Company and its Subsidiaries that could reasonably be expected to have a Material Adverse Effect;

(C) Receipt of any notice that there has been or will be any regulatory or other governmental investigation, proceeding or adverse action involving the Company or any of its Subsidiaries that could reasonably be expected to have a Material Adverse Effect, or the revocation,

suspension or material restriction of any significant permit, license or Certificate of Authority, held by the Company or any of its Subsidiaries;

(D) Any action, suit or proceeding filed, or to the knowledge of Company or any member of the Fasteau Group threatened, against the Company or any of its Subsidiaries which, if adversely determined, could reasonably be expected to have a Material Adverse Effect;

(E) Any declaration, setting aside, or payment of any dividend or other distribution of the Company's assets in respect of any of the Company's capital stock or other securities, or any direct or indirect redemption, purchase, or other acquisition of any of such stock or other securities by the Company or any of its Subsidiaries;

(F) Any other event, condition or circumstance of any character that has had or could reasonably be expected to have a Material Adverse Effect;

(G) The issuance of any Company Stock or other securities of the Company or any of its Subsidiaries (except for the issuance of shares upon the exercise of any of the Options disclosed in Exhibit D), or the granting or issuance of any warrant, option or other right to subscribe for, purchase or otherwise acquire any shares of the Company Stock or other securities of the Company or any of its Subsidiaries or any contribution to the capital of the Company or any of its Subsidiaries; or

(H) The cancellation, revocation or expiration (without renewal) of any policy of reinsurance issued to the Company or any of its Subsidiaries or any threat of such cancellation or revocation, or the repudiation by any reinsurer of any of its obligations under any such policy of reinsurance.

4.19. Tax Returns and Payments.

(A) The Company and its Subsidiaries have timely filed with the appropriate Government Authorities all tax returns and reports (federal, state, local and foreign) required by law. All such returns and reports are true and correct in all material respects and properly reflect the tax liability of the Company or the Subsidiary, as applicable. All Taxes applicable to the businesses or operations of the Company and its Subsidiaries or in respect of any of their assets through September 30, 2014, have been fully paid or reserved or accrued in the Third Quarter Financial Statements. All Taxes attributable to the businesses or operations of the Company and its Subsidiaries or in respect of any of their assets through the First Reference Date will have been paid at that time or reserved or accrued in the 2014 Financial Statements. None of the federal, state, local or foreign tax returns of the Company or any of its Subsidiaries have been examined or audited, or are currently under examination or audit, by the Internal Revenue Service or other Government Authority.

(B) Since the date of the Third Quarter Financial Statements, the Company and its Subsidiaries have made adequate provisions on their books of account for all Taxes with respect to their respective businesses, properties, assets and operations for such period. The Company and the Subsidiaries have withheld or collected from each payment made to each of their respective employees and independent contractors (if applicable), the amount of all applicable Taxes (including, but not limited to, federal income taxes and federal unemployment taxes) required to be withheld or collected therefrom, and have paid the same to the proper tax receiving officers or authorized depositories.

4.20. Reinsurance. Except for risks wholly or partially retained by the applicable ARX Company, as outlined in Exhibit G, all insurance policies written by the Company and the Subsidiaries at any time, including all policies in effect on the date of this Agreement, and all policies issued by the Company or any of its Subsidiaries that have previously terminated or been terminated (including, without limitation, by cancellation, by nonrenewal, or by declining to offer or accept renewal) are, with respect to policies in effect on the date of this Agreement, or have been, with respect to policies that have terminated or been terminated, reinsured by substantial reinsurers (a) with a current Financial Strength rating of A- or better by A.M. Best Company or with a current Financial Strength rating of A- or better by Standard & Poor's Financial Services or (b) that have fully collateralized their obligations. Exhibit G hereto contains a general description of the structure of the reinsurance programs maintained by the Company and its Subsidiaries (each, an "ARX Company") since January 1, 2010, and a list of all Reinsurance Agreements to which any ARX Company is or has been a party since that date. Exhibit G sets forth, for each such Reinsurance Agreement, the name of each reinsurer thereunder, the term of the applicable Reinsurance Agreement, the termination date, if any, of the Reinsurance Agreement, the nature of the reinsurance provided, the risks reinsured, the amount or percentage of the risk reinsured (including any aggregate limits) and the amount or percentage of the risk retained by the applicable ARX Company and for each Reinsurance Agreement if a reinstatement is required. All of such Reinsurance Agreements have been duly executed and delivered, are, with respect to policies in effect on the date of this Agreement, in full force and effect, and are enforceable against each ARX Company and reinsurer that is a party thereto or bound thereby, subject to the Enforceability Exceptions. To the knowledge of the Company and each member of the Fasteau Group, none of the ARX Companies or any of the reinsurers under any such Reinsurance Agreement is currently in default under, or in violation

of, any of the provisions of any such Reinsurance Agreement. None of such reinsurers has denied coverage or repudiated any of its obligations under any such Reinsurance Agreement or has given the Company or any Subsidiary notice, orally or in writing, of any alleged default or non-compliance thereunder or of any proposed termination, lapse, or material modification thereof, and none of the Reinsurance Agreements may lapse without notice to Company or a Subsidiary. The Company is not aware of any event, condition, occurrence or circumstance that could be deemed to be a default or event of default under any such Reinsurance Agreement, with the giving of notice, lapse of time or otherwise.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF PROGRESSIVE

Progressive hereby represents and warrants to the Company and the Selling Shareholders that:

5.1. Organization and Standing. Progressive is a corporation duly organized, validly existing and in good standing under the laws of the State of Ohio, and has all necessary power and authority to own its property and assets and to conduct its business as currently conducted.

5.2. Authorization. Progressive has full power and authority to enter into this Agreement and the Fourth Amended Stockholders' Agreement and to perform all of its obligations hereunder and thereunder. Progressive has taken all action necessary to authorize its execution and delivery of this Agreement and the Fourth Amended Stockholders' Agreement, and the performance by Progressive of all of its obligations hereunder and thereunder, and this Agreement and the Fourth Amended Stockholders' Agreement, when executed and delivered, will constitute valid and legally

binding obligations of Progressive, enforceable in accordance with their terms, subject to the Enforceability Exceptions.

5.3. Absence of Conflict. Neither the execution and delivery of this Agreement and the Fourth Amended Stockholders' Agreement by Progressive, nor the performance by Progressive of any of its obligations hereunder or thereunder, (i) conflicts with or results in, or will conflict with or result in, a breach or violation of any article, by-law, regulation, judgment, decree, order, writ, injunction, statute, rule or regulation applicable to Progressive, or (ii) conflicts with or constitutes, or will conflict with or constitute, a default under or a breach or violation of any of the terms of any note, bond, mortgage, deed, indenture, instrument or agreement to which Progressive is a party or by which Progressive, or any of its assets or property, is bound.

5.4. Governmental and Third Party Consents. No consent, approval, qualification, order or authorization of, or filing with, any Governmental Authority or other public or private party is required on the part of Progressive in connection with Progressive's valid execution, delivery or performance of this Agreement and the Fourth Amended Stockholders' Agreement, except (a) the filing of a premerger notification report, and any related information, documents or materials, by Progressive under the HSR Act, and (b) any filings required to be made by Progressive with the Delaware, Florida or Texas Departments of Insurance or any other regulatory authority which is charged with regulating or supervising the Company or any of its Subsidiaries in each jurisdiction in which the Company or any of its Subsidiaries conducts insurance business or holds a license to conduct such business.

5.5. Purchase Entirely for Own Account. This Agreement is made in reliance upon Progressive's representation to the Selling Shareholders, which by Progressive's execution of this Agreement Progressive hereby confirms, that the Shares to be purchased by Progressive hereunder will be acquired for investment for Progressive's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that Progressive has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, Progressive further represents that Progressive does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person with respect to any of the Shares.

5.6. Reliance Upon Progressive's Representations. Progressive understands that the Shares are not registered under the Securities Act based on an exemption from registration, and that the Selling Shareholders' reliance on such exemption is predicated on Progressive's representations set forth herein.

5.7. Receipt of Information. Progressive further represents that Progressive has had an opportunity to ask questions and receive answers from the Company and the Selling Shareholders regarding the business, properties, prospects, and financial condition of the Company and its Subsidiaries. The foregoing, however, does not limit or modify the representations and warranties of the Company or the Selling Shareholders in this Agreement or the right of Progressive to rely thereon.

5.8. Investment Experience. Progressive represents that it is experienced in evaluating various kinds of investments and acknowledges that it is able to fend for itself, can bear the economic

---

risk of an investment in the Shares, and has such knowledge and experience in financial and business matters that Progressive is capable of evaluating the merits and risks of an investment in the Shares.

5.9. Accredited Investor. Progressive is an "Accredited Investor," as that term is defined in Rule 501(a) promulgated by the Securities and Exchange Commission under the Securities Act.

5.10. Restricted Securities. Progressive understands that the Shares (and any shares of Common Stock issued upon any conversion thereof) may not be sold, transferred or otherwise disposed of without registration under the Securities Act or an exemption therefrom, and that in the absence of an effective registration statement covering the Shares or an available exemption from registration under the Securities Act, the Shares must be held indefinitely. In particular, Progressive is aware that the Shares may not be sold pursuant to Rule 144 promulgated under the Securities Act unless all of the conditions of that Rule are met. Among the conditions for use of Rule 144 is the availability of current information to the public about the Company. Such information is not now available and the Company has no present plans to make such information available.

5.11. Legends. To the extent applicable, each certificate or other document evidencing any of the Shares shall be endorsed with the following legends:

(A) The following legend under the Securities Act:

"THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE TRANSFERRED EXCEPT (i) IN COMPLIANCE WITH THE PROVISIONS OF ANY APPLICABLE STATE SECURITIES OR 'BLUE SKY' LAWS AND (ii) PURSUANT TO AN EFFECTIVE REGISTRATION

UNDER THE SECURITIES ACT OR IN A TRANSACTION WHICH, IN THE OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY, QUALIFIES AS AN EXEMPT TRANSACTION UNDER THE SECURITIES ACT AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER."

(B) Any legend imposed or required by the Company's Bylaws or applicable state securities laws or any stockholders' agreement to which Progressive is a party.

5.12. Absence of Certain Litigation. There is no action, suit, proceeding, or investigation pending or, to the knowledge of Progressive, threatened as of the date of this Agreement, against Progressive that questions or challenges the validity of this Agreement or the Fourth Amended Stockholders' Agreement or the right of Progressive to enter into this Agreement or the Fourth Amended Stockholders' Agreement or to consummate any of the transactions contemplated hereby or thereby, including its purchase of Shares as herein provided.

5.13. No Other Agreements. Except as contemplated by this Agreement, the Third Amended Stockholders' Agreement or the Fourth Amended Stockholders' Agreement as of the date hereof, and, except as contemplated by Section 7.5 as the Closing, Progressive has not entered into any other agreements or arrangements with any Selling Shareholder or Remaining Stockholder with respect to the Shares, or other securities of the Company, or the transactions contemplated by this Agreement.

5.14. Financial Ability. Progressive has and on the Closing Date will have sufficient funds available to purchase the Shares on the terms contemplated by this Agreement, to consummate the

other transactions to be completed at Closing, as contemplated by this Agreement, and to pay all associated costs and expenses required to be paid by Progressive pursuant to the terms of this Agreement.

ARTICLE VI

COVENANTS OF THE COMPANY

6.1. The Company covenants and agrees that prior to the Closing Date:

(A) No amendment to or change in the Certificate of Incorporation, Bylaws or Certificate of Designation of the Company, or to or in any of the organizational documents of any of its Subsidiaries, will be made or initiated without the prior written consent of Progressive and the Selling Shareholders.

(B) The Company will not issue or agree to issue any stock or other securities, or any debt, warrant, option or any other right or instrument that is exercisable for or convertible into any stock or other securities of the Company, in connection with a merger, consolidation, acquisition or otherwise (other than the issuance of shares of Company Stock upon and pursuant to the exercise of any Options listed on Exhibit D), enter into or effectuate any transaction that could alter the conversion rate or price of the Series A Preferred Stock, or declare or pay, or agree to declare or pay, any dividend or distribution in respect of Company Stock or other securities of the Company, or repurchase or agree to repurchase any shares of Company Stock or other securities of the Company.

(C) The Company and each of its Subsidiaries shall duly observe and comply in all material respects with all Laws relating to the conduct of their businesses or to their properties or assets.

(D) Each of the Company and its Subsidiaries shall maintain in full force and effect its corporate existence, and use all commercially reasonable efforts to maintain all franchises, licenses, permits, Certificates of Authority and other rights, including without limitation all rights in or to use all patents, processes, technologies, licenses, trademarks, trade names or copyrights owned, licensed or possessed by the Company or any Subsidiary that is necessary to or useful in the conduct of its business, and shall use all commercially reasonable efforts to keep in full force and effect and in good standing all of the Reinsurance Agreements listed on Exhibit G and to maintain a good business relationship with each of its reinsurers.

(E) (i) The Company will, and will cause each of its Subsidiaries to, conduct its business only in the ordinary course consistent with past practice, (ii) the Company will not, and the Company will cause each of its Subsidiaries not to, take any action or enter into any material transaction other than in the ordinary course of business consistent with past practice, and (iii) the Company will, and will cause each of its Subsidiaries to use commercially reasonable efforts to preserve intact its current business organization and reputation, keep available the services of its current officers and employees, preserve its relationships with customers, suppliers, government officials, regulatory authorities and others having business dealings with it, with the objective that their goodwill and ongoing businesses shall be unimpaired at the Closing Date.

(F) Without the prior written consent of Progressive and each of the Selling Shareholders, the Company will not, and will not permit any of its Subsidiaries to (i) increase in any manner the compensation or fringe benefits of any of its directors, officers or employees, except for normal increases in the ordinary course of business consistent with past practice that, in the aggregate, do not result in a material increase in benefits or compensation expense to the Company and its Subsidiaries, taken as a whole, (ii) pay or agree to pay any pension, retirement allowance or other

employee benefit not required or contemplated by any of the existing benefit, severance, pension or employment plans, agreements or arrangements of the Company or any of its Subsidiaries, as in effect on the date hereof, to any such director, officer or employee, whether past or present, that, in the aggregate, result in a material increase in benefits or compensation expense to the Company and its Subsidiaries, taken as a whole, (iii) enter into any new or amend any existing employment agreement with any such director, officer or employee, (iv) enter into any new or amend any existing severance agreement with any such director, officer or employee, except for severance agreements in the ordinary course of business consistent with past practice that in the aggregate do not and will not result in a material increase in the benefits or compensation expense to the Company and its Subsidiaries, taken as a whole, or (v) except as may be required to comply with applicable law, become obligated under any new pension plan or arrangement, welfare plan or arrangement, multiemployer plan or arrangement, benefit plan or arrangement, severance plan or arrangement, or similar plan or arrangement, which was not in existence on the date hereof or a renewal of any such plan or arrangement that is effective on the date hereof, or amend, modify or supplement any such plan or arrangement in existence on the date hereof if such action would have the effect of enhancing or accelerating any benefits thereunder.

(G) The Company will not, and will not permit any of its Subsidiaries to, make any acquisition, by means of merger, consolidation, purchase of a substantial equity interest in or a substantial portion of the assets of, or otherwise, of any business or corporation, partnership, association or other business organization or division thereof.

(H) Other than borrowings under existing credit facilities or other borrowings in the ordinary course (but in all cases only in the aggregate at any time outstanding up to $1,000,000 of additional borrowings after the date hereof) or borrowings disclosed in the Schedule of Exceptions,

---

without Progressive's prior written consent (and, until December 31, 2014, the prior written consent of the Selling Shareholders) the Company will not, and will not permit any of its Subsidiaries to, incur any indebtedness for borrowed money, or guarantee any indebtedness or other obligation or enter into any lease or other commitment other than in the ordinary course of business consistent with past practices, or make any loans, advances or capital contributions to, or investments in, any other Person (other than to any Subsidiary of the Company).

(I) The Company will promptly notify Progressive and each of the Selling Shareholders if, prior to the Closing Date, any litigation or governmental investigation is instituted or threatened against the Company or any of its Subsidiaries (other than ordinary course claim litigation in the ordinary course of business, but excluding any bad faith or other extra-contractual claims that the Company views as non-substantive), or any other event occurs, that has had or could reasonably be expected to have a Material Adverse Effect.

6.2. Directors' and Officers' Insurance. The Company shall (i) maintain in effect for a period of six (6) years after the Closing Date, if available, the current policies of directors' and officers' liability insurance maintained by the Company immediately prior to the Closing Date (provided that the Company may substitute therefor policies of at least the same coverage and amounts and containing terms and conditions that are not less advantageous to the directors and officers of the Company and its Subsidiaries when compared to the insurance maintained by the Company as of the date hereof), or (ii) obtain as of the Closing Date "tail" insurance policies with a claims period of six (6) years from the Closing Date with at least the same coverage and amounts and containing terms and conditions that are not less advantageous to the directors and officers of the Company and its Subsidiaries, in each case with respect to claims arising out of or relating to events which occurred before or at the Closing Date (including in connection with the transactions

contemplated by this Agreement); provided, however, that in no event will the Company be required to expend an annual premium for such coverage in excess of one hundred fifty percent (150%) of the last annual premium paid by the Company for such insurance prior to the date of this Agreement, which amount is set forth the Schedule of Exceptions (the "Maximum Premium"). If such insurance coverage cannot be obtained at an annual premium equal to or less than the Maximum Premium, the Company will obtain that amount of directors' and officers' insurance (or "tail" coverage) obtainable for an annual premium equal to the Maximum Premium.

ARTICLE VII

OTHER AGREEMENTS BETWEEN THE PARTIES

7.1. Fourth Amended Stockholders' Agreement. At the Closing, immediately after and subject to the acquisition by Progressive of all of the Shares of the Selling Shareholders that are not members of the Fasteau Group, the Company, Progressive, the Fasteau Group and other Remaining Stockholders will enter into the Fourth Amended Stockholders' Agreement, substantially in the form of Exhibit H hereto, which Agreement will be conditioned on and become effective as of the Closing (or such other date as may be specified therein). Each member of the Fasteau Group hereby agrees to execute and deliver, or cause to be delivered, executed counterparts to the Fourth Amended Stockholders' Agreement contemporaneously with the execution and delivery of this Agreement to be held by Progressive in escrow pending the execution and delivery of the Fourth Amended Stockholders' Agreement at the Closing as contemplated by this Agreement.

7.2. Extinguishment of Certain Provisions; Suspension of Certain Rights.

(A) Effective as of the Closing, Sections 7.1, 7.2, 9.4, 9.5, 9.6 and 9.7 of the 2012 Purchase Agreement will be extinguished in their entirety and no longer of any force or effect.

(B) In addition, and in consideration of the covenants and agreements made hereunder, Flexpoint and New Capital agree not to exercise the redemption rights granted to them under Section 4.10 of the Third Amended Stockholders' Agreement prior to the date this Agreement is terminated in accordance with its terms. If this Agreement is terminated, such right shall be fully exercisable in accordance with the terms of Section 4.10 of said Agreement if Flexpoint or New Capital, as applicable, is then a shareholder of the Company.

7.3. Due Diligence.

(A) From the date hereof and until and through the Closing or termination of this Agreement, the Company shall (and shall cause each of its Subsidiaries to) afford to Progressive, including its officers, employees, counsel, accountants and other authorized representatives ("Progressive Representatives"), reasonable access, during normal business hours, to all of the Company's and its Subsidiaries' assets, properties, financial statements, papers, files, contracts, documents, books and records (including without limitation, the work papers of independent accountants) and, during such period, shall (and shall cause each of its Subsidiaries to) furnish promptly to such Progressive Representatives, upon request, all information concerning its organization, ownership, business, operations, assets, properties, personnel and affairs as may reasonably be requested, and access to all of its personnel and representatives (including its independent accountants), provided that neither the investigation conducted pursuant to this Section

7.3, nor Progressive's review of the 2014 Financial Statements and Closing Balance Sheet nor any resulting adjustments made therein, shall affect or be deemed to modify, compromise or negate any of the representations or warranties made by the Company or any of the Selling Shareholders under this Agreement. Notwithstanding the foregoing, the Company shall not be required to provide access to or to disclose information where such access or disclosure could jeopardize the attorney-client privilege of the Company or any of its Subsidiaries or contravene applicable Law, any fiduciary duty or any binding confidentiality agreement or arrangement existing as of the date hereof.

(B) Subject to the requirements of law, Progressive will keep confidential, and will cause the Progressive Representatives to keep confidential, all information and documents obtained pursuant to this Section 7.3 except as otherwise consented to by the Company; *provided, however,* that Progressive shall not be precluded from making any disclosure which it deems required by law in connection with the transactions contemplated by this Agreement. If Progressive is required to disclose any information or documents pursuant to the immediately preceding sentence, Progressive shall promptly give written notice of such disclosure that is proposed to be made to the Company so that the parties can work together to limit the disclosure to the greatest extent possible and, in the event that Progressive is legally compelled to disclose any information, to seek a protective order or other appropriate remedy or both. Upon any termination of this Agreement, Progressive will collect and return to the Company all documents obtained pursuant to this Section 7.3 or otherwise by it or any of the Progressive Representatives then in their possession and any copies thereof.

7.4. Confirmations and Signatures. From the date hereof and through the 15th Business Day following the date of this Agreement, the Company shall use its reasonable best efforts to

obtain, from each current party to the Third Amended and Restated Stockholders' Agreement other than the Selling Shareholders and the stockholders identified in Section 8.1(B), (i) confirmation that Section 3.7 of the Third Amended and Restated Stockholders' Agreement is not applicable to the transactions contemplated hereby, and (ii) a signature page to the Fourth Amended and Restated Stockholders' Agreement, to be held in escrow as provided by Section 7.1.

7.5. Additional Sellers. From the date hereof and through the Closing, Progressive may, but shall not be obligated to, enter into one or more agreements with stockholders of the Company pursuant to which Progressive would purchase from such stockholders additional shares of the Company's capital stock, not to exceed 5,000 shares of Company Stock at a per share purchase price equal to the Purchase Price Per Share. The Company and each Selling Shareholder consent to any such sale by a stockholder and purchase by Progressive for purposes of, and waive any rights they may have related to such transaction under, the Third Amended Stockholders' Agreement.

7.6. Consideration. Progressive covenants and agrees that, except as contemplated by Article IX, it will not provide to any Selling Shareholder for such Selling Shareholder's Shares or otherwise, pursuant to or in connection with the transactions contemplated by this Agreement, any consideration (measured on a per Share basis) in excess of the Purchase Price Per Share.

ARTICLE VIII

WAIVERS AND GOVERNMENTAL APPROVALS

8.1. Consents and Waivers.

(A) The Company and each of the Selling Shareholders hereby consent to the Company's execution of this Agreement and the Fourth Amended Stockholders' Agreement, and hereby, unless

and until this Agreement has been terminated in accordance with its terms, irrevocably waive any and all rights that it/he may have to receive notice of and/or to participate in or pre-empt the sale of Shares to Progressive provided for hereunder, including (without limitation) any and all rights of first refusal, rights of first offer, co-sale rights, tag-along rights and/or any and all other rights that it/he may have that may be triggered by or applicable to the sale of Shares to Progressive as provided herein, including, without limitation, any and all such rights that it/he may have or have had under Article III of the Third Amended Stockholders' Agreement; provided, however, that if this Agreement is terminated, Flexpoint and New Capital shall not be deemed to have waived any rights under Section 4.10 of the Third Amended Stockholders' Agreement, all of which rights shall continue in accordance with Section 4.10 of the Third Amended Stockholders' Agreement.

(B) Prior to or simultaneously with the execution of this Agreement, the Company, ARX Executive Holdings, LLLP, PCI, Fasteau Insurance Holding II, LLC, John F. Auer and Kevin R. Milkey shall execute and deliver to Progressive (i) a Consent and Waiver of ARX Holding Corp. and Certain Stockholders, waiving any rights that they may have in connection with the sale of Shares provided for in this Agreement, and (ii) counterparts to the Fourth Amended and Restated Stockholders' Agreement, to be held in escrow as provided in Section 7.1.

8.2. Filings and Authorizations. Each of the Company and Progressive will proceed diligently and in good faith and will use their reasonable best efforts to do, or cause to be done, all things necessary, proper or advisable to, as promptly as practicable, (a) make, or cause to be made, all such other filings and submissions as may be required to consummate the transactions contemplated hereby in accordance with the terms of this Agreement, (b) obtain, or cause to be obtained, all authorizations, approvals, consents and waivers from all entities, persons and/or governmental authorities that are necessary to be obtained in order to consummate such transactions,

as set forth in Section 10.1 of the Schedule of Exceptions, and (c) take, or cause to be taken, all other actions necessary, proper or advisable in order to fulfill their respective obligations hereunder.

8.3. Third Party Consents. Between the date hereof and the Closing Date, the Company, each of the Selling Shareholders and Progressive shall use their respective best efforts to obtain at the earliest practicable date, and prior to the Closing Date, all consents and agreements of third parties necessary for the performance by the Company, the Selling Shareholders and Progressive of their respective obligations under this Agreement or the consummation of the transactions contemplated hereby.

8.4. HSR Act. Following the execution and delivery of this Agreement, the Company and Progressive shall prepare, file or supply, or cause to be prepared, filed or supplied, all notifications, reports, materials and other information required to be filed or supplied pursuant to the HSR Act in connection with the transactions contemplated by this Agreement. In addition to and not in limitation of the foregoing, each of Progressive and the Company will (w) take promptly all actions necessary to make the filings required of Progressive and the Company or their Affiliates under the HSR Act, (a) comply at the earliest practicable date with any request for additional information received by such party or its Affiliates from the Federal Trade Commission (the "FTC") or the Antitrust Division of the Department of Justice (the "Antitrust Division") pursuant to the HSR Act, (b) cooperate with the other party in connection with such party's filings under the HSR Act and in connection with resolving any investigation or other inquiry concerning the transactions contemplated by this Agreement commenced by either the FTC or the Antitrust Division or state attorneys general and (c) request early termination of the waiting period under the HSR Act.

8.5. State Insurance Department Approvals. (a) Promptly after execution of this Agreement, Progressive shall use its reasonable best efforts to prepare, assemble and file, at its own

cost and expense, with the Florida, Delaware and Texas Departments of Insurance, and, if required, any other insurance regulatory authority that is charged with supervising or regulating the insurance businesses of the Company and its Subsidiaries (as set forth in Section 10.1 of the Schedule of Exceptions), applications seeking each such Department's consent to and/or approval of the transactions provided for herein, including the transfer to Progressive of control of the Company and its Subsidiaries, or for an exemption from any such consent or approval requirement. The parties hereto agree to fully cooperate with each other in the preparation of such applications, the furnishing of all information, testimony, documents and data required in connection therewith and in the diligent prosecution of the same.

(b) Subject to Section 8.6, if any such application relating to an authorization listed in Section 10.1 of the Schedule of Exceptions shall be denied, in whole or in part, by any such regulatory authority, or if any such regulatory authority attempts or threatens to prevent the consummation of the transactions provided for herein, Progressive shall continue to prosecute such application until either all administrative remedies have been exhausted or the Termination Date has passed, whichever occurs first. If such application is finally denied, or if the Closing has not been consummated on or prior to the Termination Date, Progressive shall promptly notify the Company and the Selling Shareholders of its election to (i) to the extent legally permissible in light of such denial(s) or delay(s), and, subject to the Parties' respective conditions set forth in Articles X-XII, acquire the Shares and otherwise consummate all of the transactions provided for in this Agreement, or (ii) declare this Agreement to be terminated, in which event the terms of Section 13.2 will apply.

8.6. Best Efforts. Progressive agrees to use commercially reasonable best efforts to obtain all of the necessary authorizations, consents and/or approvals described in Sections 8.4 and 8.5 hereof.

ARTICLE IX

TREATMENT OF CERTAIN PAYMENTS OR DISTRIBUTIONS

9.1. After Flexpoint or New Capital (together, "Investor Stockholders" or individually, an "Investor Stockholder") has received cash payments and/or Marketable Securities for its Shares with respect to which such Investor Stockholder has obtained an IRR of 35%, then, at the Closing, such Investor Stockholder shall pay pro rata to the Stockholders specified in Exhibit I attached hereto, an aggregate amount equal to 10% of the amount of all cash payments and Marketable Securities received by such Investor Stockholder with respect to such Shares in excess of those providing such Investor Stockholder with an IRR of 35% (such aggregate amount, the "Special Payment"); provided, however, that the Special Payment shall be reduced by, and each Investor Stockholder shall deduct and retain from the Special Payment, an amount of cash equal to the product of (i) the maximum aggregate U.S. federal, state and local capital gain tax rate applicable to any direct or indirect partner in Flexpoint or New Capital then in effect under the Internal Revenue Code of 1986, as amended, and any corresponding provision of state or local law (and including an successor provisions thereto), and (ii) the Special Payment. The Investor Stockholders will only be required to pay any amounts pursuant to this Section 9.1 to one (1) account or recipient designated in writing by the Company and the Company shall be responsible for any further payments or distributions to the Stockholders specified in Exhibit I.

9.2. "IRR" means, as of any measurement date, with respect to the Investor Stockholders, the interest rate (compounded annually) which, when used as the discount rate to calculate the net present value as of December 15, 2006 of the sum of (i) the aggregate amount of all cash Distributions, excluding all Adjusted Tax Distributions (as defined in the SHH LLC Agreement),

made to the Investor Stockholders on or prior to such measurement date with respect to their Shares and their Class A membership units in SHH (collectively, “Investor Distributions”), (ii) the aggregate cash proceeds (that have not been included in Investor Distributions) received by the Investor Stockholders in the sale of their Shares (collectively, “Equity Proceeds”), (iii) the aggregate amount of all Capital Contributions made by the Investor Stockholders on or prior to such measurement date with respect to their Shares and Class A membership units in SHH (collectively, “Investor Contributions”), and (iv) the Fair Market Value of any Marketable Securities received by the Investor Stockholders in the sale of their Shares (collectively, “Marketable Securities Proceeds”), causes such net present value to equal zero. For purposes of the net present value calculation, (A) Investor Distributions, Equity Proceeds and Marketable Securities Proceeds shall be positive numbers, (B) the Investor Contributions shall be negative numbers and (C) all Investor Distributions, Equity Proceeds, Marketable Securities Proceeds and Investor Contributions shall be deemed to have been made on the date when actually paid or received.

9.3. The “Fair Market Value” of any assets to be valued under this Agreement shall be determined in accordance with this Section 9.3. The Fair Market Value of any asset constituting cash or cash equivalents shall be equal to the amount of such cash or cash equivalents. The Fair Market Value of any asset constituting Marketable Securities shall be the average, over a period of 21 days consisting of the date of valuation and the 20 consecutive business days prior to that date, of the average of the closing prices of the sales of such securities on the primary securities exchange on which such securities may be at that time be listed, or, if there have been no sales on such exchange on any day, the average of the highest bid and lowest asked prices on such exchanges at the end of such day, or, if on any day such securities are not so listed, the average of the representative bid and asked prices quoted in the Nasdaq System as of 4:00 P.M., New York time, or, if on any day

such securities are not quoted in the Nasdaq System, the average of the highest bid and lowest asked prices on such day in the domestic over-the-counter market as reported by the National Quotation Bureau Incorporated, or any similar successor organization; provided that if such determination is made within 20 days of an initial public offering, the Fair Market Value of such publicly traded securities shall be the price at which such securities were sold to the public pursuant to such initial public offering.

9.4. In the case of any conflict or inconsistency between this Article IX and Section 4.9 of the Third Amended Stockholders' Agreement with respect to the matters covered hereby (including as to the interpretation or enforceability of such provisions), the terms of the Third Amended Stockholders' Agreement shall prevail and govern such matters; provided that the terms of this Article IX shall apply notwithstanding any termination of the Third Amended Stockholders' Agreement. The Parties may, by mutual written agreement, arrange for any amounts required to be paid pursuant to Section 9.1 to be settled through the adjustment of the amounts payable by Progressive at the Closing pursuant to Article II rather than through the payment mechanics set forth in Section 9.1; provided that in no event will any such arrangement alter to increase the aggregate amount Progressive is required to pay to all Selling Shareholders hereunder.

ARTICLE X

CONDITIONS TO EACH PARTY'S OBLIGATION TO EFFECT THE PURCHASE OR SALE OF THE SHARES

The obligations of the Parties under this Agreement are subject to the fulfillment or written waiver on or before the Closing Date of each of the following conditions:

10.1. Any applicable waiting period under the HSR Act shall have expired or been terminated and all other governmental, regulatory and administrative consents and approvals (including without limitation, those described at Article VIII) required for the consummation of the transactions contemplated hereby, the sale to and retention by Progressive of the Shares, the acquisition by Progressive of majority control of the Company and its Subsidiaries that are set forth in Section 10.1 of the Schedule of Exceptions shall have been obtained, and the parties shall have complied with all related notice, declaration, filing and other governmental or regulatory requirements.

10.2. No claim, investigation, proceeding or litigation, either administrative or judicial, shall be initiated or pending against Progressive, the Company or any of its Subsidiaries or any of the Selling Shareholders (a) for the purpose of enjoining, delaying or preventing the consummation of the transactions contemplated by this Agreement, (b) which alleges that this Agreement, or the consummation of the transactions contemplated hereby, is improper or illegal or (c) which, if decided adversely, would prevent Progressive from purchasing or retaining the Shares, or acquiring and owning a controlling interest in each of the Company and its Subsidiaries.

10.3. There shall be no effective injunction, writ, preliminary restraining order or any order of any nature issued by a court of competent jurisdiction or other Governmental Authority that restrains, enjoins or otherwise prohibits consummation of the transactions contemplated hereby.

10.4. The Purchase Price Per Share shall have been determined pursuant to the procedures set forth in Section 2.2 hereof.

ARTICLE XI

CONDITIONS TO PROGRESSIVE’S OBLIGATIONS AT CLOSING

The obligations of Progressive under this Agreement with respect to the acquisition of Shares of any Selling Shareholder are subject to the fulfillment on or before the Closing of each of the following conditions:

11.1. Representations and Warranties. Each of the representations and warranties of the Company or such Selling Shareholder that is set forth in Section 3.4, 3.5, 4.3, 4.5, 4.12, 4.18(H), 4.19 or 4.20 shall be true and correct on and as of the Closing Date with the same effect as though such representations and warranties have been made on and as of the Closing Date, except where the failure to be so true and correct would not, individually or in the aggregate, reasonably be expected to be materially adverse to the business, operations, results of operations, prospects (as currently contemplated by the Company's business plan), financial condition, properties or assets (relative to liabilities) of the Company and its Subsidiaries, taken as a whole, or to the ability of such Selling Shareholder to consummate the transactions contemplated to be consummated by such Selling Shareholder under this Agreement. Each of the other representations and warranties of the Company and/or such Selling Shareholder set forth in this Agreement shall be true and correct on and as of the Closing Date with the same effect as though such representations and warranties have been made on and as of the Closing Date.

11.2. Performance. The Company and such Selling Shareholders shall have performed and complied, in all material respects, with all agreements, covenants, obligations and conditions contained in this Agreement that are required to be performed or complied with by them on or before the Closing and each of the Selling Shareholders will be ready, willing and able to deliver to Progressive stock certificates for the Shares being sold by such Selling Shareholder and all other documents required to be delivered at Closing by such Selling Shareholder.

11.3. Certificates. Each of the Company and such Selling Shareholder shall have delivered to Progressive a certificate, dated the Closing Date, certifying that each of the applicable conditions set forth in Sections 11.1 and 11.2 have been satisfied with respect to the Company or such Selling Shareholder, as applicable.

11.4. Preservation of Licenses and Business. There shall not have been any surrender, revocation, material restriction, material adverse modification, suspension or cancellation of any of the significant insurance licenses or authorities held by the Company or any of its Subsidiaries as of the date of this Agreement, except that the Company may, in the ordinary course of business, voluntarily restrict or modify a license or authority provided the modification or restriction will not result in a material adverse change in the financial condition, results of operations, businesses or prospects (as set forth in the Company's current business plan) of the Company and its Subsidiaries from September 30, 2014, and is otherwise not significant to the Company and its Subsidiaries.

11.5. No Material Adverse Effect. Since the date hereof, there has not been a Material Adverse Effect.

11.6. Legal Opinions. The Company and each of the Selling Shareholders shall have furnished to Progressive written opinions of its or his legal counsel, dated as of the Closing Date, addressing the matters referred to in Section 2.3(C)(iv) and (v), as applicable, addressed to Progressive and in the forms specified in Sections 2.3(C)(iv) and (v), as applicable.

11.7. Third Party Consents. In each instance in which both (i) consent to the sale, and the transfer of title and ownership, of the Shares to Progressive, as herein provided, is required from any third party under any agreement, commitment or understanding to which any Selling

Shareholder or the Company or any of its Subsidiaries is subject or bound, and (ii) the failure to obtain such consent prior to the Closing would have a material adverse effect on the ability of such Selling Shareholder to sell its or his Shares to Progressive as contemplated hereunder or a material adverse effect on the business, operations or financial condition of the Company and its Subsidiaries taken as a whole, such Selling Shareholder and/or the Company or such Subsidiary (as applicable) shall have secured the written consent of such third party to such sale and transfer.

11.8. Fourth Amended and Restated Stockholders' Agreement. The Company, each of the Remaining Stockholders and all individuals or entities who will hold immediately after the Closing any shares of Company Stock or any options, warrants or other rights to purchase any shares of Company Stock shall have executed and delivered, at or prior to the time of Closing, the Fourth Amended Stockholders' Agreement, provided that this condition will be deemed to have been satisfied even if holders of no more than 4,000 Shares of Company Stock (not including any Selling Shareholders), in the aggregate, on a fully converted basis, have not executed and delivered the Fourth Amended Stockholders' Agreement at the time of Closing.

11.9. Release of Encumbrance. All Encumbrances on Shares (including any pledge thereof) owned by and to be conveyed by Fasteau Holding, including those described on the Schedule of Exceptions, shall be released at the time of Closing, and all documents relating to such release shall be acceptable to Progressive, in its reasonable judgment.

ARTICLE XII

CONDITIONS TO THE COMPANY'S AND SELLING SHAREHOLDERS' OBLIGATIONS AT CLOSING

The obligations of the Company and the Selling Shareholders under this Agreement are subject to the fulfillment or written waiver on or before the Closing of each of the following conditions:

12.1. Representations and Warranties. The representations and warranties of Progressive contained in this Agreement shall be true and correct as of the date hereof and on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of the Closing Date.

12.2. Performance. Progressive shall have performed and complied, in all material respects, with all agreements, covenants, obligations and conditions contained in this Agreement that are required to be performed or complied with by it on or before the Closing.

12.3. Certificate. Progressive shall have delivered to the Company and the Selling Shareholders a certificate, dated the Closing Date, certifying that each of the conditions set forth in this Article XII has been satisfied.

12.4. Certain Provisions. The obligations of the Selling Shareholders under this Agreement are further subject to the fulfillment or written waiver on or before the Closing of each of the following conditions: (a) the representations and warranties of the Company that are set forth in Section 4.6 shall be true and correct in all respects on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of the Closing Date,

except for changes resulting from the exercise of Options existing as of the date of this Agreement; and (b) the Company shall have performed and complied in all material respects with its covenants and agreements set forth in paragraphs (A), (B) and (H) of Section 6.1.

ARTICLE XIII

TERMINATION

13.1. This Agreement may be terminated at any time prior to Closing under any of the following circumstances:

(A) This Agreement may be terminated by written instrument duly executed by all of the parties hereto.

(B) This Agreement may be terminated in its entirety by Progressive, at its option, if it is not in material breach of any provisions of this Agreement and any of the Selling Shareholders shall fail to tender its/his Shares at Closing in violation of the terms of this Agreement, or if the Company or any of the Selling Shareholders shall fail to observe or perform, in any material respect, any of its/his other covenants or agreements hereunder, or if any representation or warranty made by the Company or any of the Selling Shareholders shall be false or inaccurate in any material respect, and such failure, falsehood or inaccuracy would give rise to the failure of any of the conditions specified in Article X or Article XI and continues for twenty (20) or more days after its/his receipt of written notice thereof.

(C) This Agreement may be terminated by the Company or any Selling Shareholder with respect to itself, if such Party is not in material breach of any of the provisions of this Agreement and Progressive shall fail to observe or perform, in any material respect, any of its covenants or agreements hereunder, or if Progressive shall breach, in any material respect, any representation or

warranty made by Progressive hereunder, and such failure or breach would give rise to the failure of any of the conditions specified in Section XII and continues for twenty (20) or more days after its receipt of written notice thereof.

(D) This Agreement may be terminated by Progressive, upon written notice to the Company and the Selling Shareholders, if the consolidated stockholders' equity of the Company and its Subsidiaries as of December 31, 2014, as reflected in the 2014 Financial Statements delivered to Progressive pursuant to Section 2.2(C), has been overstated by five percent (5%) or more as compared to the consolidated stockholders' equity of the Company and its Subsidiaries as of December 31, 2014, as set forth in the 2014 Financial Statements, as such 2014 Financial Statements may be adjusted in accordance with Sections 2.2(D)-(F); provided that Progressive shall not be entitled to terminate this Agreement pursuant to this Section 13.1(D) if it fails to raise any objection to the calculation of the consolidated stockholders' equity of the Company and its Subsidiaries as of December 31, 2014 during the ten (10) Business Day period referred to in Section 2.2(D).

(E) This Agreement may be terminated by Progressive if the Selling Shareholders, in the aggregate, fail to tender to Progressive, at the Closing, a sufficient number of Shares to give Progressive, together with Shares currently held by Progressive or any of its Affiliates, an ownership interest of at least 55% of the Company's equity interests, determined on a Fully Diluted Basis.

(F) This Agreement may be terminated with respect to any Party upon written notice delivered by such Party to the other Parties if the Closing does not occur on or before July 1, 2015 or such other date as the parties hereto may designate (the "Termination Date"); provided that (i) if, on or prior to such date, any Party brings any legal action in accordance with Section 14.17 to enforce specifically the terms or provisions of this Agreement by any other Party, the Termination Date shall automatically be extended for a period of up to six (6) months during which such action

is pending, and (ii) if as of the Termination Date any Objection Notice has been delivered with respect to the 2014 Financial Statements pursuant to Section 2.2(D), then no Party may terminate this Agreement pursuant to this Section 13.1(F) prior to the third Business Day of the calendar month following the month in which the review and dispute resolution process contemplated by Sections 2.2(D)-(F) has been fully and finally completed.

(G) Progressive shall have the right to terminate this Agreement if, during the course of its due diligence review provided for under Section 7.3 hereof, Progressive has identified or discovered any event, circumstance or condition that, in its reasonable judgment, could reasonably be expected to have a Material Adverse Effect, or that is reasonably likely to materially and adversely affect the future income, cash flow or prospects (as contemplated by the Company's current business plan) of the Company and its Subsidiaries, taken as a whole, or evidence of significant financial or accounting irregularities ("Adverse Condition"). Some examples (non-exclusive) of an Adverse Condition include: significant unrecorded or potential liabilities, material financial accounting errors that cannot be reconciled, evidence of fraud and loss of significant reinsurance coverage (without obtaining equivalent replacement coverage) or producer relationships. The right under this Section 13.1(G) shall be deemed to have been waived if Progressive does not notify the Company and the Selling Shareholders, in writing, within fifteen (15) Business Days after the date of this Agreement, that it elects to terminate this Agreement due to the existence of an Adverse Condition.

(H) This Agreement may be terminated by Progressive, upon written notice to the Company and the Selling Shareholders, if the Company does not obtain the executed documents described in Section 7.4 (subject to the proviso set forth in Section 11.8) by the end of the timeframe stated in such Section.

13.2. Effect of Termination. In the event of termination of this Agreement as provided in Section 13.1, this Agreement shall forthwith become void and there shall be no liability on the part of any Party hereto except that (a) Section 7.3(B), this Section 13.2 and Article XIV shall survive any termination, and (b) nothing herein shall relieve any Party from liability for any willful and material default under or breach of this Agreement. For purposes hereof, "willful and material default under or breach" means a material default under or breach of this Agreement by a Party as a result of an action or failure to act by such Party that such Party knew, or reasonably should have known, would result in a breach of this Agreement.

ARTICLE XIV

MISCELLANEOUS

14.1. No Additional Representations. None of the parties to this Agreement shall be deemed to have made any representation or warranty with respect to the subject matter hereof, other than those expressly made by such party in, or in certifications delivered pursuant to the terms of, this Agreement or in the Exhibits or disclosure schedules hereto.

14.2. Survival of Warranties and Representations; Limitations.

(A) All of the warranties, representations, covenants and agreements of each of the respective parties contained in or made pursuant to this Agreement shall be deemed renewed by such party on the Closing Date, as if again made at and as of such time, and shall survive the execution and delivery of this Agreement and the Closing for a period of three (3) years, except for the following:

(i) The representations and warranties set forth in Sections 3.1, 3.2, 3.3, 3.4, 3.5, 3.7(a), 4.1, 4.2, 4.3, 4.5, 4.6, 4.7, 4.8, 4.9, 4.10, 5.1, 5.2, 5.3 and 5.4 shall have no expiration;

(ii) The representations and warranties set forth in Section 4.19 shall expire upon the expiration of the applicable statute of limitations; and

(iii) The covenants and agreements set forth in this Article XIV shall have no expiration, except as expressly set forth therein.

(B) The representations and warranties made by each member of the Fasteau Group in Article IV are made to the best knowledge of each member of the Fasteau Group, which can be established by evidence that such member has made a reasonable inquiry of the President, Executive Vice President, Vice President-Finance and Accounting and Vice President-General Counsel of the Company, and has received a written response that is supportive with the applicable representations or warranties made.

(C) For those representations and warranties made by each Selling Shareholder in this Agreement for which actual or best knowledge is required, actual or best knowledge shall mean the individual is actually aware of the fact or matter or reasonably should be aware of such fact or matter given its/his position (or the position of any of its officers, partners, members or controlling shareholders) with the Company.

(D) Notwithstanding anything provided herein to the contrary, the liability of each Selling Shareholder for a breach or violation of any of the representations or warranties made herein shall not exceed the aggregate sale proceeds of the Shares conveyed by such Selling Shareholder to Progressive hereunder, provided that for liability purposes, Fasteau and the other members of the Fasteau Group shall be considered to be a single entity. Except as expressly provided in this Section 14.2(D) and Section 14.2(E) with respect to members of the Fasteau Group, no Selling Shareholder shall be responsible for or have any liability for the breach of any representation, warranty or covenant made by any other Party, including the Company.

(E) None of the Company or the Selling Shareholders shall have any liability with respect to any representation or warranty in this Agreement unless Progressive gives written notice to the Company and the Selling Shareholders of the particular claim, describing such claim in reasonable detail, no later than thirty (30) days after expiration of the applicable surviving period, as specified in Section 14.2. Notwithstanding the foregoing, the members of the Fasteau Group shall be deemed to be and shall be treated as a single entity.

(F) Notwithstanding anything to the contrary in this Agreement, no member of the Fasteau Group shall be responsible for, or have any liability for, the breach of any representation, warranty or covenant by any other Selling Shareholder who is not a member of the Fasteau Group.

14.3. Liability of Selling Shareholders. Except as expressly provided in Sections 14.2(D) and (E) with respect to members of the Fasteau Group, the liabilities of the Selling Shareholders hereunder are several (not joint and several), and each Selling Shareholder shall only be responsible for obligations that relate solely to that Selling Shareholder and the Shares that such Selling Shareholder is to convey hereunder.

14.4. Limitation of Damages. In no event shall any of the parties hereto, or any of their respective officers, directors, members, partners, employees, agents or representatives, be liable for any consequential, incidental, indirect, remote, speculative, exemplary, special or punitive damages (such as treble damages), or damages arising out of lost profits or loss of revenue, in each case arising out of any breach or violation of any representation, warranty, covenant or agreement set forth in this Agreement or with respect to any other obligation or liability arising out of this Agreement.

14.5. Successors and Assigns. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and permitted assigns of each of the parties thereto. Nothing in this Agreement, express or implied, is intended to confer upon any person or entity other than the parties hereto or their respective successors and permitted assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement. Neither this Agreement, nor any of the rights or obligations of any of the parties hereunder, may be assigned without the prior written consent of all of the other parties hereto; provided, however, that, without such consent, Progressive may assign any of its rights or obligations hereunder, and ownership of the Shares, to any direct or indirect wholly owned subsidiary of Progressive; provided, further, that no such assignment shall relieve Progressive of its obligations hereunder.

14.6. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. In addition to original signatures, signatures may be in the form of facsimile or a .pdf, each of which shall be valid and fully effective for all purposes.

14.7. Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

14.8. Expenses. Except as otherwise expressly provided herein, each of the parties hereto shall be responsible for all costs and expenses (including, without limitation, all legal, accounting and consulting fees and all tax liabilities) incurred at its/his/her initiative or to which it/he/she may

---

be subject in connection with preparation, negotiation and execution of this Agreement and/or in preparation for the transactions contemplated hereby.

14.9. Public Disclosure. No press release or similar public announcement or communication will be made concerning the existence, execution, delivery or performance of this Agreement unless the timing, content and method of such disclosure has been previously approved by both Progressive and the Company; provided that, without any such prior approval, each of Progressive and XL or any of their respective Affiliates may make any such disclosures in one or more news release or filings under the Securities Exchange Act of 1934, as amended, as it believes to be required by law or otherwise advisable; provided, further, that none of the Parties shall be required to consult with the others prior to (1) making any communications substantially similar to communications previously issued after consultation with such other Parties, or (1) in the case of a Selling Shareholder, disclosing such information on a confidential basis to its limited partners and members, if applicable.

14.10. Notice. Any notice or other communication required or permitted to be given hereunder shall be hand-delivered, sent by facsimile, electronic mail or overnight courier or mailed by certified or registered mail, return receipt requested, postage prepaid, addressed as follows:

(a) If to the Company:
Angel D. Bostick, General Counsel
ARX Holding Corp.
1 ASI Way
St. Petersburg, FL 33702
Fax: (727) 374-0466
Email: abostick@asicorp.org

(b) If to Progressive :
Charles E. Jarrett, Chief Legal Officer
The Progressive Corporation

6300 Wilson Mills Road
Mayfield Village, Ohio 44143
Fax: (440) 395-3678
Email: chuck_jarrett@progressive.com

(c) If to XL Re Ltd.:
XL Re Ltd.
1 Bermudiana Road
Hamilton HM EX Bermuda
Attn: Derrick Irby, Executive Vice President

H. Matthew Crusey, SVP and Assistant General Counsel
Fax: (441) 296-9936
Email: matthew.crusey@xlgroup.com

with a copy (which shall not constitute notice) to:
Willkie Farr & Gallagher LLP
787 Seventh Avenue
New York, NY 10019
Attn: Rajab S. Abbassi

Fax: (212) 728-8111
Email: rabbassi@willkie.com

(d) If to Fasteau Insurance Holding, LLC:
Fasteau Insurance Holding, LLC
c/o Marc Fasteau
77 Seekonk Cross Road
Great Barrington, MA 01230-1565
marc.fasteau@fulcrum-llc.com and
fasteaumarc@gmail.com

(e) If to Marc Fasteau, individually, or Marc Fasteau, as Trustee of the Alexis Fasteau 2008 Irrevocable Trust:
Mr. Marc Fasteau
77 Seekonk Cross Road
Great Barrington, MA 01230-1565
marc.fasteau@fulcrum-llc.com and
fasteaumarc@gmail.com

(f) If to Marc Fasteau, as Trustee of the Marc Fasteau 2012 Irrevocable Trust:
Mr. Marc Fasteau
77 Seekonk Cross Road
Great Barrington, MA 01230-1565
marc.fasteau@fulcrum-llc.com and

fasteaumarc@gmail.com

In the case of clauses (d) – (f), with a copy to (which shall not constitute notice):
Shearman & Sterling LLP
599 Lexington Avenue
New York, NY 10022
Attn: John A. Marzulli, Jr.
David Connolly

Fax: (646) 848-8590
(646) 848-4274
Email: jmarzulli@shearman.com
david.connolly@shearman.com

(g) If to Flexpoint Fund, L.P.
Flexpoint Fund, L.P.
676 N. Michigan Avenue, Suite 3300
Chicago, IL 60611
Attn: Christopher J. Ackerman
Fax: (312) 327-4525
Email: cackerman@flexpointford.com

with a copy (which shall not constitute notice) to:
Kirkland & Ellis LLP

300 North LaSalle

Chicago, IL 60654

Attn: Sanford E. Perl, P.C.

Mark A. Fennell, P.C.

Fax: (312) 862-2200
Email: sanford.perl@kirkland.com
mfennell@kirkland.com

(h) If to New Capital Partners Private Equity Fund, L.P.:
New Capital Partners Private Equity Fund, L.P.
2101 Highland Ave. South
Suite 700
Birmingham, AL 35205
Attn: James B. Little, III

Fax: (205) 939-8402
Email: jlittle@newcapitalpartners.com

with a copy (which shall not constitute notice) to:
Maynard, Cooper & Gale, P.C.

1901 Sixth Avenue North

2400 Regions/Harbert Plaza

Birmingham, AL 35203

Attn: Gregory S. Curran

Fax: (205) 254-1999

(i) If to Stewart Insurance Holdings, LLLP:
Stewart Insurance Holdings, LLLP
c/o Gregory E. Stewart
1 ASI Way
St. Petersburg, FL 33702
Fax: (727) 374-0466
Email: gstewart.pro@gmail.com

(j) If to Gregory E. Stewart:
Gregory E. Stewart
1 ASI Way
St. Petersburg, FL 33702
Fax: (727) 374-0466
Email: gstewart.pro@gmail.com

or such other address as shall be furnished in writing by such Party. Notices or other communications shall be deemed given: (i) when sent by electronic mail; (ii) one (1) Business Day after being sent by overnight courier, (iii) three (3) Business Days after being sent by certified, registered, or United States Post Office priority mail; and (iv) when received, for all other methods; provided, however, that any notice or communication changing any of the addresses set forth above shall be effective and deemed given only upon its receipt.

14.11. Entire Agreement. This Agreement, together with the Exhibits and Schedule of Exceptions attached hereto, constitute and include the complete understanding and agreement between the parties hereto in relation to the subject matter hereof. All prior representations, covenants, undertakings and agreements between any of the parties hereto are of no further force or effect.

14.12. Rights and Remedies. No right or remedy conferred upon or reserved to any party by this Agreement shall exclude any other right or remedy, but each such right or remedy shall be cumulative and shall be in addition to every other right or remedy hereunder or available at law or in equity.

14.13. Amendment. Once executed by all of the parties hereto, this Agreement may not be amended or terminated orally, but only by an instrument in writing duly executed by all of the parties hereto.

14.14. Interpretation and Construction. This Agreement shall in all respects be interpreted, construed and governed by and in accordance with the laws of the State of Delaware. In the event that any provision of this Agreement shall finally be determined to be unlawful, such provision shall be deemed to be severed from this Agreement, but every other provision of this Agreement shall remain in full force and effect.

14.15. Jurisdiction. The Parties agree that all actions arising out of or relating to this Agreement shall be brought in the United States District Court for the District of Delaware or the Delaware Court of Chancery. Consistent with the preceding sentence, the Parties hereby (a) submit to the exclusive jurisdiction of such courts (and of the appropriate appellate courts therefrom) for

the purpose of any action arising out of or relating to this Agreement brought by any Party hereto and (b) irrevocably waive, and agree not to assert by way of motion, defense, or otherwise, in any such action, any claim that it is not subject personally to the jurisdiction of the above named courts, that its property is exempt or immune from attachment or execution, that the action is brought in an inconvenient forum, that the venue of the action is improper, or that this Agreement or the transactions contemplated by this Agreement may not be enforced in or by any of the above named courts.

14.16. Waiver of Jury Trial. EACH OF THE PARTIES HERETO HEREBY WAIVES TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY WITH RESPECT TO ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT.

14.17. Specific Performance. The Parties hereto acknowledge and agree that the Parties would be irreparably damaged if any of the provisions of this Agreement are not performed in accordance with their specific terms or are otherwise breached and that any non-performance or breach of this Agreement by any Party hereto could not be adequately compensated by monetary damages alone and that the Parties hereto would not have any adequate remedy at Law. Accordingly, in addition to any other right or remedy to which a Party may be entitled, at Law or in equity (including monetary damages), such Party shall be entitled to enforce any provision of this Agreement by a decree of specific performance and to temporary, preliminary and permanent injunctive relief to prevent breaches or threatened breaches of any of the provisions of this Agreement without posting any bond or other undertaking.

[Signatures on following pages]

IN WITNESS WHEREOF, the parties hereunder have executed and delivered this Agreement in any number of counterparts, each of which fully executed counterparts shall be deemed an original for all purposes.

THE PROGRESSIVE CORPORATION

By:/s/Glenn M. Renwick
Name: Glenn M. Renwick
Title: President

ARX HOLDING CORP.

By:/s/John F. Auer
Name: John F. Auer
Title: President & CEO

SELLING SHAREHOLDERS:

XL RE LTD.

By:/s/Charles Cooper
Name: Charles Cooper
Title: President and CUO

/s/ Marc Fasteau
MARC FASTEAU

FASTEAU INSURANCE HOLDING, LLC

By: /s/ Marc Fasteau
Name Marc Fasteau
Title Managing Member

MARC FASTEAU, AS TRUSTEE OF THE

ALEXIS FASTEAU 2008 IRREVOCABLE TRUST

By:/s/Marc Fasteau

Marc Fasteau, Trustee

MARC FASTEAU, AS TRUSTEE OF THE

MARC FASTEAU 2012 IRREVOCABLE TRUST

By:/s/Marc Fasteau

Marc Fasteau, Trustee

STEWART INSURANCE HOLDINGS, LLLP

By:/s/Gregory Stewart_____
Name Gregory Stewart
Title General Partner

/s/Gregory E. Stewart_______
GREGORY E. STEWART

FLEXPOINT FUND, L.P.

By: Flexpoint Management, L.P.
Its: General Partner

By: Flexpoint Ultimate Management, LLC
Its: General Partner

By: /s/Donald Edwards
Name: Donald Edwards
Title: Manager

NEW CAPITAL PARTNERS PRIVATE

EQUITY FUND, L.P.
By: New Capital Partners, LLC
Its: General Partner

By: /s/James B. Little, III
Name James B. Little, III
Title Managing Member

Exhibit 12

XL GROUP PLC

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERENCE DIVIDENDS

(U.S. dollars in thousands, except ratios)	Years Ended December 31, 2014	2013
Earnings:		
Pre-tax income (loss) from continuing operations	$ 162,701	$ 955,957
Fixed charges	221,761	243,575
Distributed income of equity investees	157,061	136,795
Subtotal	$ 541,523	$ 1,336,327
Less: Non-controlling interests	3,755	(500)
Preference share dividends	76,743	77,231
Total earnings (loss)	$ 461,025	$ 1,259,596
Fixed charges:		
Interest costs	$ 121,221	$ 107,486
Accretion of deposit liabilities	12,885	47,976
Rental expense at 30% (1)	10,912	10,882
Total fixed charges	$ 145,018	$ 166,344
Preference share dividends	76,743	77,231
Total fixed charges and preference dividends	$ 221,761	$ 243,575
Ratio of earnings to fixed charges	3.2	7.6
Ratio of earnings to combined fixed charges and preference dividends	2.1	5.2
Deficiency - fixed charges only	N/A	N/A
Deficiency - fixed charges and preference dividends	N/A	N/A

(1) 30% represents a reasonable approximation of the interest factor.

Subsidiaries of the Registrant
(as of December 31, 2014)

COMPANY	%	JURISDICTION
XL Group plc		Ireland
Green Holdings Limited		Bermuda
XLIT Ltd.		Cayman
XL Company Switzerland LLC		Switzerland
EXEL Holdings Limited		Cayman
X.L. Property Holdings Limited		Bermuda
XL Insurance (Bermuda) Ltd		Bermuda
Mid Ocean Holdings Ltd.		Bermuda
XL London Market Group Ltd		UK
Dornoch Limited		UK
XL London Market Ltd- Syndicate 1209		UK
XL Re Ltd		Bermuda
ECS Reinsurance Company Inc.		Barbados
Fundamental Insurance Investments Ltd.		Bermuda
XL Underwriting Managers Ltd.		Bermuda
New Ocean Capital Management Limited	65.6	Bermuda
New Ocean Market Value Cat Fund Ltd.***	100	Bermuda
New Ocean Focus Cat Fund Ltd.***	50	Bermuda
Vector Reinsurance Ltd.***	70	Bermuda
XL Re Europe SE		Ireland
XL Insurance (Gibraltar) Limited		Gibraltar
XL Re Latin America Ltd		Switzerland
XL Latin America Investments Ltd		Bermuda
XL Resseguros Brasil S.A.		Brazil
XL Re Latin America (Argentina SA)	80	Argentina
XL Re Latin America Ltd Escritório de Representação no Brasil Ltda		Brazil
XL (Brazil) Holdings Ltda		Brazil
XL Services (Bermuda) Ltd		Bermuda
XL Life Ltd		Bermuda
Reeve Court General Partner Limited		Bermuda
Reeve Court 4 Limited Partnership		Bermuda
Reeve Court 6 Limited Partnership		Bermuda
XL Gracechurch Limited		UK
XL Insurance (UK) Holdings Limited		UK
XL Insurance Argentina S.A. Compañia de Seguros	90	Argentina
XL Services UK Limited		UK
XL Insurance Company SE		UK
XL Insurance Argentina S.A. Compañia de Seguros	10	Argentina
XL Insurance (China) Company Ltd	49	China
XL Seguros Brasil S.A.		Brazil
XL Holdings Proprietary Limited		South Africa
XL AB (PTY) Ltd		South Africa
XL Financial Holdings (Ireland) Limited		Ireland
XL Finance (Ireland) Limited		Ireland
XL Services Canada Ltd.		Canada
X.L. America, Inc. *		Delaware
XL Financial Solutions, Inc.		Delaware
XLA Garrison L.P.		Delaware
XL Reinsurance America Inc.		New York
XL Insurance (China) Company Ltd	51	China

Entity	%	Jurisdiction
Greenwich Insurance Company		Delaware
Global Asset Protection Services, LLC		Connecticut
Global Asset Protection Services Company Limited		Japan
Global Asset Protection Services Consultancy (Beijing) Company Limited		China
XL Insurance America, Inc.		Delaware
XL Select Insurance Company		Delaware
XL Insurance Company of New York, Inc.		New York
XL Group Investments LLC		Delaware
XL Group Investments Ltd		Bermuda
XL Specialty Insurance Company		Delaware
Indian Harbor Insurance Company		Delaware
Global Ag Insurance Services, LLC		California
XL Global, Inc.		Delaware
X.L. Global Services, Inc.		Delaware
Eagleview Insurance Brokerage Services, LLC		Delaware
XL Life and Annuity Holding Company		Delaware
XL Life Insurance and Annuity Company		Illinois
ECS, Inc. (In Liquidation)		Pennsylvania
XL Investments Ltd		Bermuda
XL Capital Products Ltd		Bermuda
Blunt Underwriting Services Limited		UK
XL Insurance Guernsey Limited		Guernsey
Garrison Investments Inc. **		Barbados
XL (SPECIALTY) S.a.r.l.		Luxembourg
XL (WESTERN EUROPE) S.a.r.l.		Luxembourg
XL Swiss Holdings Ltd		Switzerland
XL Re Latin America (Argentina SA)	20	Argentina
XL Insurance Switzerland Ltd		Switzerland
XL Services Switzerland Ltd		Switzerland
XL India Business Services Private Limited		India
XL Seguros Mexico SA de CV		Mexico

(*) - General Parter of XLA Garrison L.P.

(**) - Limited Partner of XLA Garrison L.P.

(***) - Preferred Share Ownership

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (File No. 333-199842), Form S-8 (File No. 333-161124), Form S-8 (File No. 333-161122), Form S-8 (File No. 333-89568), Form S-8 (File No. 333-81451), Form S-8 (File No. 333-46250), Form S-8 (File No. 333-62137) and Form S-8 (No. 333-174138) of XL Group plc of our report dated February 25, 2015 relating to the financial statements, financial statement schedules and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

New York, New York
February 25, 2015

Exhibit 31

Certification of Chief Executive Officer
XL Group plc
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(Chapter 98, Title 15 U.S.C. 7241)

I, Michael S. McGavick, certify that:

1. I have reviewed this Annual Report on Form 10-K of XL Group plc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 25, 2015

/s/ MICHAEL S. MCGAVICK

Michael S. McGavick
Chief Executive Officer

Certification of Chief Financial Officer
XL Group plc
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(Chapter 98, Title 15 U.S.C. 7241)

I, Peter R. Porrino, certify that:

1. I have reviewed this Annual Report on Form 10-K of XL Group plc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 25, 2015

/s/ PETER R. PORRINO

Peter R. Porrino
Executive Vice President and
Chief Financial Officer

Exhibit 32

Certification Accompanying Form 10-K of XL Group plc
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Chapter 63, Title 18 U.S.C. 1350(a) and (b))

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chapter 63, Title 18 U.S.C. 1350(a) and (b)), each of the undersigned hereby certifies that, to his knowledge, the Annual Report on Form 10-K for the period ended December 31, 2014 of XL Group plc (the "Company") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 25, 2015

/s/ MICHAEL S. MCGAVICK

Michael S. McGavick
Chief Executive Officer
XL Group plc

Dated: February 25, 2015

/s/ PETER R. PORRINO

Peter R. Porrino
Executive Vice President and
Chief Financial Officer
XL Group plc

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to XL Group plc and will be retained by XL Group plc and furnished to the Securities and Exchange Commission or its staff upon request.