

XL GROUP PLC
Form 10-Q
November 07, 2012

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

FORM 10-Q

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from _____ to _____

Commission file number 1-10804

XL GROUP

Public Limited Company

(Exact name of registrant as specified in its charter)

Ireland
(State or other jurisdiction of
incorporation or organization)

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

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

+353 (1) 405-2033

(Registrant's telephone number, including area code)

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

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

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

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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

As of November 6, 2012, there were 300,605,273 outstanding Ordinary Shares, \$0.01 par value per share, of the registrant.

XL GROUP PLC

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

XL GROUP PLC

UNAUDITED CONSOLIDATED BALANCE SHEETS

<i>(U.S. dollars in thousands, except share data)</i>	September 30, 2012	December 31, 2011
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost: 2012: \$26,150,520; 2011: \$25,771,715)	\$ 27,426,293	\$ 26,190,025
Equity securities, at fair value (cost: 2012: \$554,962; 2011: \$480,685)	565,927	468,197
Short-term investments, at fair value (amortized cost: 2012: \$323,039; 2011: \$359,378)	323,705	359,063
	<hr/>	<hr/>
Total investments available for sale	\$ 28,315,925	\$ 27,017,285
Fixed maturities, held to maturity at amortized cost (fair value: 2012: \$3,222,900; 2011: \$2,895,688)	2,805,796	2,668,978
Investments in affiliates	1,027,122	1,052,729
Other investments	1,215,556	985,262
	<hr/>	<hr/>
Total investments	\$ 33,364,399	\$ 31,724,254
Cash and cash equivalents	3,197,305	3,825,125
Accrued investment income	365,516	331,758
Deferred acquisition costs	720,847	647,113
Ceded unearned premiums	721,465	596,895
Premiums receivable	2,791,807	2,411,611
Reinsurance balances receivable	225,251	220,017
Unpaid losses and loss expenses recoverable	3,319,266	3,654,948
Receivable from investments sold	45,328	59,727
Goodwill and other intangible assets	407,221	407,321
Deferred tax asset	132,931	115,601
Other assets	688,992	670,895
	<hr/>	<hr/>
Total assets	\$ 45,980,328	\$ 44,665,265
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Unpaid losses and loss expenses	\$ 20,074,668	\$ 20,613,901
Deposit liabilities	1,561,076	1,608,108
Future policy benefit reserves	4,848,734	4,845,394
Unearned premiums	4,081,557	3,555,310
Notes payable and debt	1,673,350	2,275,327
Reinsurance balances payable	508,177	90,552
Payable for investments purchased	281,630	58,494
Deferred tax liability	192,419	91,104
Other liabilities	1,001,298	770,945
	<hr/>	<hr/>
Total liabilities	\$ 34,222,909	\$ 33,909,135
Commitments and Contingencies		
Shareholders' Equity:	\$ 3,006	\$ 3,156

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Ordinary shares, 999,990,000 authorized, par value \$0.01; issued and outstanding: (2012: 300,580,557; 2011: 315,645,796)		
Additional paid in capital	8,630,377	8,938,679
Accumulated other comprehensive income	1,423,448	583,064
Retained earnings (deficit)	354,206	(113,241)
	<u> </u>	<u> </u>
Shareholders' equity attributable to XL Group plc	\$ 10,411,037	\$ 9,411,658
Non-controlling interest in equity of consolidated subsidiaries	1,346,382	1,344,472
	<u> </u>	<u> </u>
Total shareholders' equity	\$ 11,757,419	\$ 10,756,130
	<u> </u>	<u> </u>
Total liabilities and shareholders' equity	\$ 45,980,328	\$ 44,665,265
	<u> </u>	<u> </u>

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<i>(U.S. dollars in thousands, except per share data)</i>				
Revenues:				
Net premiums earned	\$ 1,548,040	\$ 1,453,326	\$ 4,471,053	\$ 4,213,048
Net investment income	239,480	290,106	767,353	866,874
Realized investment gains (losses):				
Net realized gains (losses) on investments sold	7,136	4,461	64,704	(6,899)
Other-than-temporary impairments on investments	(10,295)	(67,513)	(45,028)	(141,321)
Other-than-temporary impairments on investments transferred to (from) other comprehensive income	(2,334)	698	(16,759)	9,885
Total net realized gains (losses) on investments	\$ (5,493)	\$ (62,354)	\$ 2,917	\$ (138,335)
Net realized and unrealized gains (losses) on derivative instruments	6,254	(26,916)	2,656	(34,299)
Income (loss) from investment fund affiliates	16,050	(7,123)	38,555	30,277
Fee income and other	13,153	10,980	34,121	30,494
Total revenues	\$ 1,817,484	\$ 1,658,019	\$ 5,316,655	\$ 4,968,059
Expenses:				
Net losses and loss expenses incurred	\$ 894,076	\$ 988,059	\$ 2,574,496	\$ 3,020,508
Claims and policy benefits	119,439	139,549	371,896	410,196
Acquisition costs	236,347	207,553	679,435	611,142
Operating expenses	305,746	247,815	887,209	774,949
Exchange (gains) losses	18,690	(39,425)	13,432	(38,409)
Interest expense	37,906	48,911	134,564	158,157
Total expenses	\$ 1,612,204	\$ 1,592,462	\$ 4,661,032	\$ 4,936,543
Income (loss) before income tax and income (loss) from operating affiliates	\$ 205,280	\$ 65,557	\$ 655,623	\$ 31,516
Income (loss) from operating affiliates	2,917	35,552	41,731	95,439
Provision (benefit) for income tax	451	24,718	51,813	16,747
Net income (loss)	\$ 207,746	\$ 76,391	\$ 645,541	\$ 110,208
Non-controlling interests	(35,844)	(33,993)	(75,855)	(69,431)
Net income (loss) attributable to XL Group plc and ordinary shareholders	\$ 171,902	\$ 42,398	\$ 569,686	\$ 40,777
Weighted average ordinary shares and ordinary share equivalents outstanding basic	304,199	311,714	309,675	310,793
Weighted average ordinary shares and ordinary share equivalents outstanding diluted	307,764	313,848	312,602	314,842
Earnings (loss) per ordinary share and ordinary share equivalent basic	\$ 0.57	\$ 0.14	\$ 1.84	\$ 0.13

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Earnings (loss) per ordinary share and ordinary share equivalent - diluted	\$	0.56	\$	0.14	\$	1.82	\$	0.13
		<u> </u>		<u> </u>		<u> </u>		<u> </u>

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<i>(U.S. dollars in thousands)</i>				
Net income (loss) attributable to XL Group plc	\$ 171,902	\$ 42,398	\$ 569,686	\$ 40,777
Change in net unrealized gains (losses) on investments, net of tax	456,642	110,124	778,299	291,330
Change in net unrealized gains (losses) on affiliate and other investments, net of tax	14,615	2,954	30,998	35,620
Change in OTTI losses recognized in other comprehensive income, net of tax	25,936	3,995	52,353	28,119
Change in underfunded pension liability	(2,026)	1,684	(2,033)	1,287
Change in value of cash flow hedge	110	110	330	330
Foreign currency translation adjustments	17,411	(85,635)	(19,563)	(1,278)
Comprehensive income (loss)	\$ 684,590	\$ 75,630	\$ 1,410,070	\$ 396,185

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC

UNAUDITED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	Nine Months Ended September 30,	
	2012	2011
<i>(U.S. dollars in thousands)</i>		
Ordinary Shares:		
Balance - beginning of year	\$ 3,156	\$ 3,165
Issuance of ordinary shares	9	307
Buybacks of ordinary shares	(162)	(267)
Exercise of stock options	3	1
Balance - end of period	\$ 3,006	\$ 3,206
Additional Paid in Capital:		
Balance - beginning of year	\$ 8,938,679	\$ 8,993,016
Issuance of ordinary shares	1,380	573,460
Buybacks of ordinary shares	(350,996)	(566,673)
Exercise of stock options, net of tax	4,784	1,195
Share based compensation expense	36,530	29,261
Balance - end of period	\$ 8,630,377	\$ 9,030,259
Accumulated Other Comprehensive Income (Loss):		
Balance - beginning of year	\$ 583,064	\$ 100,795
Change in net unrealized gains (losses) on investments, net of tax	778,299	291,330
Change in net unrealized gains (losses) on affiliate and other investments, net of tax	30,998	35,620
Change in OTTI losses recognized in other comprehensive income, net of tax	52,353	28,119
Change in underfunded pension liability	(2,033)	1,287
Change in value of cash flow hedge	330	330
Foreign currency translation adjustments	(19,563)	(1,278)
Balance - end of period	\$ 1,423,448	\$ 456,203
Retained Earnings (Deficit):		
Balance - beginning of year	\$ (113,241)	\$ 500,497
Net income (loss) attributable to XL Group plc	569,686	40,777
Dividends on ordinary shares	(102,239)	(104,020)
Balance - end of period	\$ 354,206	\$ 437,254
Non-controlling Interest in Equity of Consolidated Subsidiaries:		
Balance - beginning of year	\$ 1,344,472	\$ 1,002,296
Non-controlling interests - contribution	1,500	
Non-controlling interests	(63)	4
Non-controlling interest share in change in accumulated other comprehensive income (loss)	473	(16)
Purchase of Series E preference ordinary shares		(500)
Balance - end of period	\$ 1,346,382	\$ 1,001,784
Total Shareholders Equity	\$ 11,757,419	\$ 10,928,706

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(U.S. dollars in thousands)</i>	Nine Months Ended September 30,	
	2012	2011
Cash flows provided by (used in) operating activities:		
Net income (loss)	\$645,541	\$110,208
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Net realized (gains) losses on investments	(2,917)	138,335
Net realized and unrealized (gains) losses on derivative instruments	(2,656)	34,299
Amortization of premiums (discounts) on fixed maturities	119,819	83,252
(Income) loss from investment and operating affiliates	(80,286)	(125,716)
Share based compensation	41,827	32,043
Depreciation	41,735	36,544
Accretion of deposit liabilities	65,585	63,492
Unpaid losses and loss expenses	(609,175)	185,023
Future policy benefit reserves	(132,834)	(101,047)
Unearned premiums	524,341	615,699
Premiums receivable	(380,164)	(448,133)
Unpaid losses and loss expenses	354,698	(24,758)

recoverable		
Ceded unearned premiums	(121,791)	(233,148)
Reinsurance balances receivable	(5,146)	(9,422)
Deferred acquisition costs	(47,629)	(92,859)
Reinsurance balances payable	413,658	412,103
Deferred tax asset - net	24,058	(47,803)
Derivatives	49,567	(30,032)
Other assets	(51,039)	(67,851)
Other liabilities	108,067	(105,212)
Other	(61,079)	(59,500)
Total adjustments	\$248,639	\$255,309
Net cash provided by (used in) operating activities	\$894,180	\$365,517
Cash flows provided by (used in) investing activities:		
Proceeds from sale of fixed maturities and short-term investments	\$2,456,889	\$3,233,941
Proceeds from redemption of fixed maturities and short-term investments	3,212,626	2,700,412
Proceeds from sale of equity securities	212,034	189,818
Purchases of fixed maturities and short-term investments	(5,874,664)	(5,411,886)
Purchases of equity securities	(289,553)	(571,031)
Net dispositions of investment affiliates	58,415	166,950
Other investments, net	(113,538)	(39,502)
Net cash provided by (used in) investing activities	\$(337,791)	\$268,702
Cash flows provided by (used		

in) financing activities:		
Proceeds from issuance of ordinary shares and exercise of stock options	\$4,651	\$1,196
Buybacks of ordinary shares	(351,158)	(566,940)
Repurchase of Redeemable Series C preference ordinary shares	-	(71,801)
Repurchase of Series E preference ordinary shares	-	(465)
Dividends paid on ordinary shares	(101,753)	(103,331)
Distributions to non-controlling interests	(43,283)	(38,580)
Proceeds from issuance of debt	-	396,400
Contribution from non-controlling interest	1,500	-
Repayment of debt	(600,000)	-
Deposit liabilities	(114,376)	(116,472)
Net cash provided by (used in) financing activities	\$(1,204,419)	\$(499,993)
Effects of exchange rate changes on foreign currency cash	20,210	19,189
Increase (decrease) in cash and cash equivalents	\$(627,820)	\$153,415
Cash and cash equivalents - beginning of period	3,825,125	3,022,868
Cash and cash equivalents - end of period	\$3,197,305	\$3,176,283

See accompanying Notes to Unaudited Consolidated Financial Statements

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation and Consolidation

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

These unaudited consolidated financial statements include the accounts of the Company and all of its subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by GAAP for complete financial statements. In addition, the year-end balance sheet data was derived from audited financial statements but do not include all disclosures required by GAAP. In the opinion of management, these unaudited financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement of financial position and results of operations at the end of and for the periods presented. The results of operations for any interim period are not necessarily indicative of the results for a full year. All inter-company accounts and transactions have been eliminated. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates. For further information, see Item 8, Note 2(a), Significant Accounting Policies Basis of Preparation and Consolidation, to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

To facilitate period-to-period comparisons, certain reclassifications have been made to prior period consolidated financial statement amounts to conform to current period presentation.

2. Significant Accounting Policies

Recent Accounting Pronouncements

In October 2010, the FASB issued an accounting standards update to address disparities in practice regarding the interpretation of which costs relating to the acquisition of new and renewal insurance contracts qualify for deferral. The provisions of the guidance specify that only costs that are related directly to the successful acquisition of new and renewal insurance contracts may be capitalized. These include incremental direct costs of contract acquisition and certain other costs related directly to underwriting activities. Incremental direct costs of contract acquisition are those that result directly from and are essential to a contract transaction, and would not have been incurred by the insurance entity had the transaction not occurred. Administrative costs, rent, depreciation, occupancy, equipment and all other general overhead costs are considered indirect costs and should be charged to expense as incurred. On January 1, 2012, the Company adopted this guidance on a retrospective basis for all fiscal years presented, and interim periods within those years. The impact of adoption was a reduction in deferred acquisition costs of approximately \$21 million, a reduction in deferred tax liabilities of approximately \$7 million, and a corresponding reduction in opening retained earnings of approximately \$14 million within the Company s December 31, 2011 balance sheet. The adoption of this guidance did not have an impact on the Company s consolidated statements of income or comprehensive income.

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 has adopted this guidance from January 1, 2012; however, it impacted disclosure only and did not have an impact on the Company s financial condition or results of operations. See Note 3, Fair Value Measurements, for these updated disclosures.

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

2. Significant Accounting Policies

Recent Accounting Pronouncements

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. However, a separate accounting standards update issued in December 2011 deferred indefinitely a provision within the original standard requiring entities to present components of reclassifications of other comprehensive income on the face of the income statement. The Company adopted the guidance from January 1, 2012; however, it did not have an impact on the Company's disclosure, financial condition or 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 in FASB Accounting Standards Codification Topic 350. 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 test 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 amendments do not change the current guidance for testing other indefinite-lived intangible assets for impairment. The Company adopted this guidance from January 1, 2012. It did not have an impact on the Company's consolidated financial condition or results of operations or cash flows.

In December 2011, the FASB issued new guidance requiring additional disclosures about financial instruments and derivative instruments 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. This guidance will be effective on January 1, 2013, with retrospective presentation of the new disclosures required. As this new guidance is disclosure-related only and does not amend the existing balance sheet offsetting guidance, the adoption of this guidance will not impact the Company's financial condition or results of operations or cash flows.

3. Fair Value Measurements

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

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

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value Measurements

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

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

For further information, see Item 8, Note 2, Significant Accounting Policies, to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

(a) Fair Value Summary

The following tables set forth the Company's assets and liabilities that were accounted for at fair value at September 30, 2012 and December 31, 2011 by level within the fair value hierarchy:

September 30, 2012 (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 September 30, 2012
Assets					
U.S. Government and Government - Related/Supported	\$	\$ 2,135,368	\$	\$	\$ 2,135,368
Corporate (1) (2)		9,978,002	29,135		10,007,137
Residential mortgage-backed securities Agency (RMBS - Agency)		5,343,046	33,857		5,376,903
Residential mortgage-backed securities Non-Agency (RMBS - Non-Agency)		628,486	7,839		636,325
Commercial mortgage-backed securities (CMBS)		1,001,040	33,369		1,034,409
Collateralized debt obligations (CDO)		7,773	674,793		682,566
Other asset-backed securities (2)		1,441,381	17,163		1,458,544
U.S. States and political subdivisions of the States		1,820,105			1,820,105
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported		4,274,936			4,274,936
Total fixed maturities, at fair value	\$	\$ 26,630,137	\$ 796,156	\$	\$ 27,426,293
Equity securities, at fair value (3)	230,539	335,388			565,927
Short-term investments, at fair value (1)(4)		323,705			323,705

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Total investments available for sale	\$ 230,539	\$ 27,289,230	\$ 796,156	\$	\$ 28,315,925
Cash equivalents (5)	2,037,971	321,646			2,359,617
Other investments (6)		783,813	119,975		903,788
Other assets (7)		10,611		41,540	52,151
Total assets accounted for at fair value	\$ 2,268,510	\$ 28,405,300	\$ 916,131	\$ 41,540	\$ 31,631,481
Liabilities					
Financial instruments sold, but not yet purchased (8)	\$	\$ 30,944	\$	\$	\$ 30,944
Other liabilities (7)		82,009	35,062		117,071
Total liabilities accounted for at fair value	\$	\$ 112,953	\$ 35,062	\$	\$ 148,015

XL GROUP PLC

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Fair Value Measurements

December 31, 2011 <i>(U.S. dollars in thousands)</i>	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, 2011
Assets					
U.S. Government and Government - Related/Supported	\$	\$ 1,990,983	\$	\$	\$ 1,990,983
Corporate (1) (2)		10,084,804	23,818		10,108,622
RMBS Agency		5,347,365	32,041		5,379,406
RMBS Non-Agency		641,815			641,815
CMBS		974,835			974,835
CDO		7,751	650,851		658,602
Other asset-backed securities (2)		1,323,697	16,552		1,340,249
U.S. States and political subdivisions of the States		1,797,378			1,797,378
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported		3,298,135			3,298,135
Total fixed maturities, at fair value (2)	\$	\$ 25,466,763	\$ 723,262	\$	\$ 26,190,025
Equity securities, at fair value (3)	239,175	229,022			468,197
Short-term investments, at fair value (1)(4)		359,063			