Insurance
XL Bermuda Ltd

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Consolidated Financial Statements for the Years Ended December 31, 2016 and 2015

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June 29, 2017

Report of Independent Auditors

To the Shareholder of XL Bermuda Ltd

We have audited the accompanying consolidated financial statements of XL Bermuda Ltd and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and December 31, 2015, and the related consolidated statements of income, comprehensive income, shareholder's equity and cash flows for the years then ended.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of XL Bermuda Ltd and its subsidiaries as of December 31, 2016 and December 31, 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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XL BERMUDA LTD
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2016 AND 2015

(U.S. dollars in thousands, except share data)	2016	2015
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost: 2016, $28,956,977; 2015, $31,097,730)	$ 29,619,018	$ 31,820,961
Equity securities, at fair value (cost: 2016, $995,934; 2015, $834,079)	1,036,655	878,919
Short-term investments, at fair value (amortized cost: 2016, $626,142; 2015, $539,032)	625,194	537,583
Total investments available for sale	$ 31,280,867	$ 33,237,463
Fixed maturities, at fair value (amortized cost: 2016, $1,548,178; 2015, $1,263,609)	1,617,014	1,235,699
Short-term investments, at fair value (amortized cost: 2016, $9,536; 2015, $60,176)	9,563	60,330
Total investments trading	$ 1,626,577	$ 1,296,029
Investments in affiliates	2,177,645	1,708,899
Other investments	1,164,547	1,432,173
Total investments	$ 36,249,636	$ 37,674,564
Cash and cash equivalents	3,341,679	2,874,027
Restricted Cash	153,504	154,992
Accrued investment income	281,330	310,296
Deferred acquisition costs and value of business acquired	946,721	890,568
Ceded unearned premiums	1,687,864	1,821,793
Premiums receivable	5,522,976	4,712,493
Reinsurance balances receivable	577,479	418,666
Unpaid losses and loss expenses recoverable	5,491,297	5,262,706
Receivable from investments sold	128,411	231,158
Amount due from Parent and affiliates	82,958	38,389
Goodwill and other intangible assets	2,067,341	2,073,954
Deferred tax asset	310,542	282,312
Other assets	692,835	822,058
Total assets	$ 57,534,573	$ 57,567,976
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities:		
Unpaid losses and loss expenses	$ 25,939,571	$ 25,439,744
Deposit liabilities	1,116,233	1,168,376
Future policy benefit reserves	3,506,047	4,163,500
Funds withheld on GreyCastle life retrocession arrangements (net of future policy benefit reserves recoverable: 2016, $3,072,615; 2015, $3,719,131)	998,968	914,629
Unearned premiums	7,293,028	7,043,358
Reinsurance balances payable	2,451,717	2,117,727
Payable for investments purchased	226,009	130,060
Deferred tax liability	77,271	120,649
Amount due to Parents and affiliates	47,710	61,040
Other liabilities	1,158,877	1,263,869
Total liabilities	$ 42,815,431	$ 42,422,952
Shareholder's Equity:		
Ordinary shares, 15,000,000 authorized, par value $0.10; issued and outstanding (2016: 12,500,000 ; 2015: 10,000,000)	$ 1,250	$ 1,000
Additional paid in capital	12,579,844	13,488,503
Accumulated other comprehensive income	541,900	500,795
Retained earnings	918,483	521,843
Shareholder's equity attributable to XL Group Ltd	$ 14,041,477	$ 14,512,141
Non-controlling interest in equity of consolidated subsidiaries	677,665	632,883
Total shareholder's equity	$ 14,719,142	$ 15,145,024
Total liabilities and shareholder's equity	$ 57,534,573	$ 57,567,976

See accompanying Notes to Consolidated Financial Statements

XL BERMUDA LTD
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(U.S. dollars in thousands)	2016	2015
Revenues:		
Net premiums earned	$ 9,777,934	$ 8,226,425
Net investment income:		
Net investment income - excluding Life Funds Withheld Assets	656,179	667,353
Net investment income - Life Funds Withheld Assets	154,751	187,489
Total net investment income	810,930	854,842
Realized investment gains (losses):		
Net realized gains (losses) on investments sold - excluding Life Funds Withheld Assets	193,773	91,363
Other-than-temporary impairments ("OTTI") on investments - excluding Life Funds Withheld Assets	(78,997)	(81,922)
OTTI on investments transferred to (from) other comprehensive income - excluding Life Funds Withheld Assets	439	(964)
Net realized gains (losses) on investments sold - Life Funds Withheld Assets	152,589	223,272
OTTI on investments - Life Funds Withheld Assets	(2,598)	(13,357)
Net unrealized gains (losses) on investments, trading securities ("Trading") - Life Funds Withheld Assets	109,458	(27,734)
Total net realized gains (losses) on investments, and net unrealized gains (losses) on investments, Trading	$ 374,664	$ 190,658
Net realized and unrealized gains (losses) on derivative instruments	2,521	40,761
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	(540,090)	(151,691)
Income (loss) from investment fund affiliates	70,758	73,320
Fee income and other	35,692	33,201
Total revenues	$ 10,532,409	$ 9,267,516
Expenses:		
Net losses and loss expenses incurred	$ 6,072,835	$ 4,766,200
Claims and policy benefits	28,244	115,997
Acquisition costs	1,620,671	1,317,448
Operating expenses	1,961,366	1,905,691
Foreign exchange (gains) losses	(8,146)	22,832
(Gain) Loss on sale of subsidiary	(7,088)	—
Extinguishment of debt	—	5,592
Interest expense	69,121	61,874
Total expenses	$ 9,737,003	$ 8,195,634
Income (loss) before income tax and income (loss) from operating affiliates	795,406	1,071,882
Income (loss) from operating affiliates	44,397	44,740
Gain on sale of operating affiliate	—	340,407
Provision (benefit) for income tax	42,380	(19,811)
Net income (loss)	$ 797,423	$ 1,476,840
Non-controlling interests	(50,783)	(29,216)
Net income (loss) attributable to XL Bermuda Ltd	$ 746,640	$ 1,447,624

See accompanying Notes to Consolidated Financial Statements

XL BERMUDA LTD
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(U.S. dollars in thousands)	2016	2015
Net income (loss) attributable to ordinary shareholder	$ 746,640	1,447,624
Change in net unrealized gains (losses) on investments - excluding Life Funds Withheld Assets, net of tax	(58,217)	(504,747)
Change in adjustments related to future policy benefit reserves, net of tax	62,294	170,688
Change in net unrealized gains (losses) on investments - Life Funds Withheld Assets, net of tax	(4,502)	(421,604)
Change in net unrealized gains (losses) on affiliate and other investments, net of tax	(57,854)	(5,514)
Change in OTTI losses recognized in other comprehensive income, net of tax	3,670	8,536
Change in underfunded pension liability, net of tax	(246)	(3,852)
Foreign currency translation adjustments, net of tax	95,960	(23,692)
Comprehensive income (loss)	$ 787,745	667,439

See accompanying Notes to Consolidated Financial Statements

XL BERMUDA LTD
CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(U.S. dollars in thousands)	2016	2015
Ordinary Shares:		
Balance – beginning of year	$ 1,000	$ 1,000
Issuance of ordinary shares	250	—
Balance – end of year	$ 1,250	$ 1,000
Additional Paid in Capital:		
Balance – beginning of year	$ 13,488,503	$ 9,344,083
Increase in equity of subsidiary	1,341	5,239
Receipt of Capital	—	4,139,181
Return of Capital	(910,000)	—
Balance – end of year	$ 12,579,844	$ 13,488,503
Accumulated Other Comprehensive Income (Loss):		
Balance – beginning of year	$ 500,795	$ 1,280,980
Change in net unrealized gains (losses) on investments - excluding Life Funds Withheld Assets, net of tax	(58,217)	(504,747)
Change in adjustments related to future policy benefit reserves	62,294	170,688
Change in net unrealized gains (losses) on investments - Life Funds Withheld Assets, net of tax	(4,502)	(421,604)
Change in net unrealized gains (losses) on affiliate and other investments, net of tax	(57,854)	(5,514)
Change in OTTI losses recognized in other comprehensive income, net of tax	3,670	8,536
Change in underfunded pension liability, net of tax	(246)	(3,852)
Foreign currency translation adjustments, net of tax	95,960	(23,692)
Balance – end of year	$ 541,900	$ 500,795
Retained Earnings (Deficit):		
Balance – beginning of year	$ 521,843	$ 1,191,219
Net income (loss) attributable to ordinary shareholders	746,640	1,447,624
Dividends on ordinary shares	(350,000)	(2,117,000)
Balance – end of year	$ 918,483	$ 521,843
Non-controlling Interest in Equity of Consolidated Subsidiaries:		
Balance – beginning of year	$ 632,883	$ 57,516
Non-controlling interests – contributions	47,524	23,610
Non-controlling interests – distributions	(9,028)	(19,001)
Non-controlling interests – acquired	—	562,285
Non-controlling interests	7,308	7,464
Non-controlling interest share in change in accumulated other comprehensive income (loss)	(1,022)	1,009
Balance – end of year	$ 677,665	$ 632,883
Total Shareholder's Equity	$ 14,719,142	$ 15,145,024

See accompanying Notes to Consolidated Financial Statements

XL BERMUDA LTD
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(U.S. dollars in thousands)	2016	2015
Cash flows provided by (used in) operating activities:		
Net income (loss)	$ 797,423	$ 1,476,840
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	(378,540)	(190,658)
Net realized and unrealized (gains) losses on derivative instruments	(2,521)	(40,761)
Net realized and unrealized (gains) losses on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	540,090	151,691
Amortization of premiums (discounts) on fixed maturities	193,482	194,824
(Income) loss from investment fund and operating affiliates	(67,802)	(46,072)
Loss (gain) on sale of subsidiaries	(7,088)	—
Gain on sale of operating affiliate	—	(340,407)
Depreciation and amortization	114,020	86,969
Accretion of deposit liabilities	43,984	43,633
Changes in:		
Unpaid losses and loss expenses	1,073,313	(211,831)
Future policy benefit reserves	(162,096)	(278,818)
Funds withheld on GreyCastle life retrocession arrangements, net	(223,516)	(210,943)
Unearned premiums	436,106	(528,214)
Premiums receivable	(1,084,432)	156,168
Unpaid losses and loss expenses recoverable	(360,223)	(439,548)
Amounts due from parent and affiliates	(57,899)	(36,752)
Ceded unearned premiums	70,529	237,017
Reinsurance balances receivable	(174,126)	2,319
Deferred acquisition costs and value of business acquired	(62,926)	126,455
Reinsurance balances payable	398,738	229,205
Deferred tax asset – net	(41,641)	(47,924)
Derivatives	119,038	185,300
Other assets	(17,549)	15,345
Other liabilities	(78,896)	173,604
Other	(72,498)	18,815
Total adjustments	$ 197,547	$ (750,583)
Net cash provided by (used in) operating activities	$ 994,970	$ 726,257
Cash flows provided by (used in) investing activities:		
Proceeds from sale of fixed maturities and short-term investments	$ 12,443,102	$ 15,062,113
Proceeds from redemption of fixed maturities and short-term investments	3,750,469	3,562,543
Proceeds from sale of equity securities	848,779	664,735
Purchases of fixed maturities and short-term investments	(14,923,187)	(18,202,687)
Purchases of equity securities	(1,103,447)	(567,334)
Proceeds from sale of affiliates	397,091	188,023
Purchases of affiliates	(681,385)	(280,856)
Purchase of subsidiaries, net of acquired cash	(92,893)	—
Proceeds from sale of subsidiaries, net of cash sold	22,998	—
Proceeds from sale of ARX Holding Corp.	—	560,552
Change in restricted cash	1,488	(154,992)
Other, net	201,219	(169,593)
Net cash provided by (used in) investing activities	$ 864,234	$ 662,504

See accompanying Notes to Consolidated Financial Statements

XL BERMUDA LTD
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(U.S. dollars in thousands)	**2016**	**2015**
Cash flows provided by (used in) financing activities:		
Dividends paid on ordinary shares	(350,000)	(1,974,178)
Distributions to non-controlling interests	(51,852)	(40,508)
Contributions from non-controlling interests	47,524	23,610
(Distribution)/Contribution to/from Parent Company	(910,000)	1,267,565
Repayment of debt	—	(87,447)
Deposit liabilities	(69,482)	(84,758)
Net cash provided by (used in) financing activities	$ (1,333,810)	$ (895,716)
Effects of exchange rate changes on foreign currency cash	(57,742)	(64,377)
Increase (decrease) in cash and cash equivalents	$ 467,652	$ 428,668
Cash and cash equivalents – beginning of period	2,874,027	2,445,359
Cash and cash equivalents – end of period	$ 3,341,679	$ 2,874,027
Net taxes paid	$ 81,315	$ 95,521

See accompanying Notes to Consolidated Financial Statements

1. General

XL Bermuda Ltd (the "Company" or "XLB") was formed June 2016 under the laws of Bermuda as the result of the amalgamation of two Bermuda operating entities, XL Insurance (Bermuda) Ltd and XL Re Ltd and is registered as a Class 4 insurer. The Company's ultimate parent is XL Group Ltd ("XLG"), a Bermuda exempted company.

The Company and its operating subsidiaries are 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 29 countries, through the Company's two business operations: Insurance and Reinsurance.

Insurance Operations

On July 25, 2016, XL Group plc, an Irish public limited company ("XL-Ireland"), and XLG completed a scheme of arrangement under Irish law (the "Scheme of Arrangement") that effected a transaction (the "Redomestication") that resulted in the shareholders of XL-Ireland becoming shareholders of XLG and XL-Ireland becoming a subsidiary of XLG.

In connection with the Redomestication, on August 3, 2016, XL-Ireland distributed the ordinary shares of XLIT Ltd. (formerly XL Capital Ltd.), a Cayman Islands exempted company ("XL-Cayman"), to XLG (the "Distribution"), which was recorded on the share register of XL-Cayman on August 4, 2016. As a result of the Distribution, XL-Cayman is now a direct, wholly-owned subsidiary of XLG. It is anticipated that XL-Ireland will be liquidated (via a solvent members voluntary liquidation which was initiated on August 2, 2016) in 2017.

The Company's insurance operations are organized as a matrix which includes four business groups: Global Casualty, Global Energy, Property, & Construction, Global Professional and Global Specialty, as well as four regions: Americas; Europe, Middle East & Africa ("EMEA"); U.K. & Ireland; and Asia Pacific.

Global Casualty provides primary and excess casualty, environmental liability, excess and surplus lines, surety U.S. program/ facilities and North American construction business.

Global Energy, Property & Construction Teams includes all aspects of the energy cycle, from exploration and production phases to midstream and downstream phases. Appetite ranges from single location risks to multinational companies with global risks - and cover is available as primary, excess or full value. Products and services include: control of well; drilling contractors; energy casualty; offshore construction projects; and offshore and onshore energy property/business interruption.

Property includes commercial combined packages, general property, business interruption and boiler and machinery. Through its Property Risk Engineering/Global Asset Protection Services ("GAPS") unit, the property team offers risk assessment and consultancy services to help build a holistic risk management strategy for the Company's clients.

Global Professional includes directors' and officers' liability, errors and omissions liability, employment practices liability, crime, fiduciary and technology and cyber liability coverages.

Specialty includes the following lines of business: aviation & satellite, marine (including North America inland marine), fine art & specie, equine, livestock & aquaculture, crisis management (product recall, political violence, kidnap & ransom, contingency, sport & leisure, title), political risk, trade credit and life, accident & health.

Reinsurance Operations

The Company's Reinsurance operations are structured into five geographical regions: Bermuda; North America; London; EMEA; and Latin America, Asia Pacific & Credit ("LAC").

The Reinsurance operations provide casualty, property risk, property catastrophe, specialty, and other reinsurance lines on a global basis with business being written on both a proportional and non-proportional treaty basis, and also on a facultative basis.

Run-Off Life Operations

The Company ceased writing new life reinsurance contracts in 2009 and since that time have been managing the run-off of the life reinsurance operations ("Run-Off Life Operations"). On May 1, 2014, XLB completed a transaction with GreyCastle Holdings Ltd ("GreyCastle") that resulted in sale of the Company'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")). As a result of the transaction, the Company has ceded the majority of the life reinsurance business to GCLR via

100% quota share reinsurance (the "GreyCastle Life Retro Arrangements"). This transaction covers a substantial portion of XLB's life reinsurance reserves. During 2015, the Company entered into another reinsurance agreement (the "U.S. Term Life Retro Arrangements") ceding the majority of the remaining life reinsurance business.

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
- carrying value of goodwill and intangible assets.

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 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) 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 hedge 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. All trading securities are held in support of the GreyCastle Life Retro Arrangements, which relates to the 2014 sale of the Life Reinsurance subsidiary (XL Life Reinsurance (SAC)). Thus, changes in the fair value of trading securities are included in "Net unrealized gains (losses) on investments, trading securities - Life Funds Withheld Assets," and interest and dividend income from trading securities are included as a component of "Net investment income - Life Funds Withheld Assets".

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

Designated investments that support the GreyCastle Life Retro Arrangements, which were written on a funds withheld basis ("Life Funds Withheld Assets") and entered into in connection with the sale of XLB's 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 that is accounted for as a derivative.

Changes in the fair value of the embedded derivative associated with the GreyCastle Life Retro 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 hedge fund 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 considered 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. 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. Investments for which fair value is estimated using net asset value per share as a practical expedient are excluded from the fair value hierarchy. 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 has historically participated in structured transactions. These have included providing cash loans supporting project finance transactions and providing liquidity facility financing to structured project deals. The Company also invested in a payment obligation with an insurance company. The Company's policy is to value such transactions at amortized cost. For further details see Note 8, "Fair Value Measurements," and Note 6, "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 ceded 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 XLB's consolidated balance sheets, with the exception of the GreyCastle Life Retro Arrangements, which were 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.

(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 Securities

The Company's 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 the Company intends to sell such securities. In addition, the authoritative guidance requires that OTTI for certain asset-backed and mortgage-backed securities be 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.

With respect to equity securities and other investments carried at fair value, we generally impair a security if its fair value is 50% or lower than its amortized cost or if the security is in a loss position for 11 or more consecutive months.

If the Company intends to sell an impaired 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 income (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(loss) 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.

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. We have outsourced a significant portion of the day-to-day management of the Company's investment portfolio 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, 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.

(h) Derivative Instruments

The Company recognizes all derivatives as either assets or liabilities on the balance sheets and measures those instruments at fair value. Except for the embedded derivative associated with the GreyCastle Life Retro Arrangements 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 the 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 that 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 less 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. Alternatively, 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 the fair value of certain fixed rate liabilities and fixed maturity securities due to changes in the designated benchmark interest rate.

Hedges of the Net Investment in a Foreign Operation

Changes in the 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 sheet 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 and Cash Equivalents

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.

Restricted Cash

Restricted cash represents cash and cash equivalents that the Company is a) holding for the benefit of a third party and is legally or contractually restricted as to withdrawal or usage for general corporate purposes; and b) not replaceable by another type of asset other than cash or cash equivalents, under the terms of the Company's contractual arrangements with such third parties. Restricted cash includes cash and cash equivalents held pursuant to the terms of the Company's contractual obligations relating to the 2014 sale of the Life Reinsurance subsidiary.

(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 monthly 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 the current and prior years. Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. In accordance with GAAP, 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. The Company tests for impairment at the reporting unit level in accordance with the authoritative guidance on intangibles and goodwill. The Company has organized its goodwill into two reporting units, reflecting its two operations.

The Company's indefinite-lived intangible assets consist primarily of Lloyd's syndicate capacity plus 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, 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. 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 intangible and other long-lived assets such as trade names, distribution networks, 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. See Note 9, "Goodwill and Other Intangible Assets" for further information.

(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. This is 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. Refer to Note 16, "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 16, "Variable Interest Entities," and Note 19, "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 ("P&C") 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 risk 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 GAAP, 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 accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, we determine deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes deferred tax assets to the extent that we believe that these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing temporary differences, projected future taxable income, tax planning strategies, and taxable income in prior years that may be available for carryback. A valuation allowance will be established for any portion of a deferred tax asset that we believe will not be realized, and the impact will be included in the provision for income taxes.

The Company records uncertain tax positions in accordance with ASC 740 on the basis of a two- step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more likely than not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon settlement with the tax authority.

The Company recognizes interest and penalties on underpaid tax as a component of income tax expense.

The Company’s investment income is allocated to applicable branch operations and is 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) Recent Accounting Pronouncements

Recently Issued Accounting Standards Adopted in 2016

ASU 2014-15 Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern

In August 2014, the Financial Accounting Standards Board ("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 Company adopted this guidance in 2016. There was no impact on its financial condition, results of operations or cash flows, nor were any additional disclosures required.

ASU 2015-02 Amendments to the Consolidation Analysis

In February 2015, the FASB issued an accounting standards update concerning consolidation of certain legal entities. Under this new guidance, all legal entities are required to evaluate whether they should consolidate certain legal entities. The guidance: (1) modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities; (2) eliminates the presumption that a general partner should consolidate a limited partnership; (3) affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) provides a scope exception from consolidation guidance for certain reporting entities. Upon adoption of the new guidance, differing requirements for performing a consolidation analysis under existing GAAP will be eliminated, and all reporting entities will now fall within the scope of the Accounting Standards Codification Subtopic 810-10, *Consolidation-Overall*, unless a specific exception applies. Under this Subtopic, there are only two primary models for determining whether consolidation is appropriately a voting interest entity model, and a variable interest entity model. The Company adopted this guidance in 2016. There was no impact on its financial condition, results of operations, or cash flows. The disclosure in Note 16, "Variable Interest Entities," was updated as a result of the adoption of this update.

ASU 2015-07 Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

In May 2015, the FASB issued an accounting standards update concerning investments for which management estimates fair value using net asset value per share (or its equivalent) as a practical expedient. Under the guidance, such investments will no longer be reported within the fair value hierarchy. Removing those investments from the fair value hierarchy not only eliminates the diversity in practice resulting from the way in which investments measured at net asset value per share (or its equivalent) with future redemption dates are classified, but also ensures that all investments categorized in the fair value hierarchy are classified using a consistent approach. Investments that calculate net asset value per share (or its equivalent), but for which the practical expedient is not applied, will continue to be included in the fair value hierarchy. A reporting entity should continue to disclose information on investments for which fair value is measured at net asset value (or its equivalent) as a practical expedient to help users understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value. The Company adopted this guidance in 2016. As this guidance is disclosure related only, there was no impact on the Company's financial condition, results of operations, or cash flows. The disclosures in Note 8, "Fair Value Measurements," were updated as a result of the adoption of this update.

ASU 2015-09 Disclosures about Short-Duration Contracts

In May 2015, the FASB issued an accounting standards update concerning the annual disclosure regarding the liability for unpaid claims and claims adjustment expenses for insurance entities. The guidance requires: (1) incurred and paid claims development information by accident year, on a net basis after reinsurance, for the number of years for which claims incurred typically remain outstanding, including the most recent reporting period, which need not exceed 10 years; (2) a reconciliation of incurred and paid claims development information to the aggregate carrying amount of the liability for unpaid claims and claim adjustment expenses, with separate disclosure of reinsurance recoverable on unpaid claims for each period presented in the statement of financial position; (3) for each accident year for which incurred claims development information is presented, the total of incurred but not reported ("IBNR") liabilities plus expected development on reported claims included in the liability for unpaid claims and claims adjustment expenses, accompanied by a description of reserving methodologies; (4) for each accident year for which incurred claims development information is presented, quantitative information about claim frequency (unless it is impracticable to do so) accompanied by a qualitative description of methodologies used for determining claim frequency information; and (5) for all claims, the average annual percentage payout of incurred claims by age for the same number of accident years as the disclosure for IBNR. The guidance recommends that insurance entities aggregate or disaggregate those disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have significantly different characteristics. The amendments also require insurance entities to disclose information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements. Additionally, the amendments require insurance entities to disclose for annual and interim reporting periods a rollforward of the liability for unpaid claims and claims adjustment expenses. Additional disclosures about liabilities for unpaid claims and claim adjustment expenses reported at present value include: (1) for each period presented in the statement of financial position, the aggregate amount of discount for the time value of money deducted to derive the liability for unpaid claims and claim adjustment expenses; (2) for each period presented in the statement of income, the amount of interest accretion recognized; and (3)the line items in the statement of income in which interest accretion is classified. The Company adopted this guidance in 2016. There was no impact on its financial condition, results of operations, or cash flows. The additional disclosures required by this update have been included in Note 10, "Losses and Loss Expenses."

ASU 2016-07 Simplifying the Transition to the Equity Method of Accounting

In March 2016, the FASB issued an accounting standards update concerning the accounting for equity method investments. The amendments in this update require an investor to increase its current basis in an investment by the cost of the acquisition of an additional interest in the investee when the investment qualifies for use of the equity method as a result of such increase in the level of ownership interest or degree of influence and adopt the equity method of accounting as of that date. Additionally, if the investment was previously accounted for as an available-for-sale ("AFS") security, an entity also should immediately recognize through earnings the unrealized holding gain or loss in AOCI as of that date. Thus, this new treatment is eliminating existing GAAP rules requiring retroactive adjustment of an entity's investments, results of operations and retained earnings when an existing investment qualifies for the equity method of accounting. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, applied prospectively upon its effective date. However, the Company elected to early adopt this guidance during the third quarter of 2016, as was permitted under the standard's transition rules, and recognized approximately $33.5 million in 2016 earnings as a result of the adoption.

Recently Issued Accounting Standards Not Yet Adopted

ASU 2016-01 Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued an accounting standards update concerning the accounting for financial instruments. The guidance retains the basic existing framework for accounting for financial instruments under GAAP, while achieving limited convergence with IFRS in this area. The guidance: (1) requires equity investments (except consolidated entities and those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income; (2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (3) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for non-public business entities; (4) eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost on the balance sheet; (5) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (6) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial statements; (7) requires separate presentation of financial assets and financial liabilities by measurement category and form of asset in the financial statements; and (8) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to AFS securities in combination with the entity's other deferred tax assets. The guidance will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted at the beginning of the fiscal year of adoption only, and should be applied by means of a cumulative effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, except the amendments related to impairment of equity securities without readily determinable fair values. The Company is currently evaluating the impact of this guidance, but expects that it will have an effect on results of operations as mark to market movements will prospectively impact net income. It is not expected to have a material impact on the Company's financial condition or cash flows.

ASU 2016-02 Leases

In February 2016, the FASB issued an accounting standards update concerning the accounting for leases. The most significant change to existing GAAP created by this standard will be the lessee recognition of lease assets and lease liabilities for those leases classified as operating. The core principle of this guidance stipulates that a lessee should recognize in the statement of financial position, initially measured at the present value of the lease payments, both a liability for contractual payments due under the lease, and an asset representing its right to use the underlying leased asset for the lease term ("right-of-use asset"). For financing leases, interest on the lease liability should be recognized separately from the amortization of the right-of-use asset in the statement of comprehensive income. Additionally, as regards the presentation of financing lease activities within the statement of cash flows, repayments of the principal portion of the lease liability should be classified within financing activities, while payments of interest on the lease liability should be classified within operating activities. For operating leases, a single net lease cost should be recognized over the lease term, generally on a straight-line basis, and all cash payments related to the lease should be classified within operating activities in the statement of cash flows. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities, and therefore recognize lease expense for such leases on a straight-line basis over the lease term. The guidance will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. An entity that elects to apply the practical expedients will substantively continue to account for leases that commence before the effective date in accordance with existing GAAP, except that a right-of-use asset and a lease liability must be recorded for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were previously tracked and disclosed. The Company is currently evaluating the impact of this guidance, but expects that it will have an effect on the Company's financial condition as new assets and liabilities related to operating leases are likely to be recorded as a result of adoption. The Company does not expect this new guidance to have a material impact on the Company's results of operations or cash flows.

ASU 2016-13 Measurement of Credit Loss on Financial Instruments

In June 2016, the FASB issued an accounting standards update concerning the measurement of credit losses on financial instruments. The amendments in this update affect the measurement of various financial assets, including loans, debt securities, trade receivables, reinsurance receivables and net investments in leases. For assets measured at amortized cost, the amendments in this update require presentation at the net amount expected to be collected. This results in an allowance for all expected credit losses over an asset’s entire life, with no threshold for recognition. This allowance should be maintained in a valuation account that is deducted from the amortized cost of the asset to result in the net amount for presentation purposes. Credit loss allowances for newly created financial assets and subsequent movements in these allowances will be recognized in the income statement, except for the initial credit losses on assets that are purchased in an already credit-impaired state, which will be added to the purchase price of such assets. For AFS debt securities, credit losses should also be recorded through an allowance. The allowance for credit losses is restricted to the difference between the fair value and amortized cost of the relevant asset. The guidance will be effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within those fiscal years beginning after December 15, 2018. The updates should be adopted in a modified-retrospective approach, by means of a cumulative-effect adjustment to retained earnings at the beginning of the first reporting period in which the guidance is effective. For securities with an existing other-than-temporary impairment or securities previously acquired with deteriorated quality the relevant provisions should be adopted prospectively. The Company is currently evaluating the impact of this guidance and expects that it will have an impact on the Company’s financial position and results of operations, but not the Company’s cash flows.

ASU 2016-15 Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued an accounting standards update concerning the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. The amendments in this update are intended to address areas where GAAP is unclear and diversity in practice exists. The following areas are covered in this update: (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon debt instruments; (3) contingent consideration payments following a business combination; (4) proceeds from settlement of insurance claims; (5) proceeds from settlement of corporate-owned life insurance policies; (6) distributions received from equity method investees; (7) beneficial interests in securitization transactions; and (8) separation of cash flows. The guidance will be effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity adopts this update during an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments should be applied using a retrospective transition method to the period presented, unless it is impractical to do so. The Company is currently evaluating the impact of this guidance on XLB's statement of cash flows and does not expect any material impact on the Company's financial position, or results of operations.

ASU 2016-16 Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued an accounting standards update concerning the tax effects of intra-entity asset transfers within a group. The new guidance requires an entity to reflect the income tax consequences of an intra-entity transfer of an asset other than inventory when that transfer occurs. This is a departure from current GAAP, which prohibits recognition of tax on such transfers until the asset has been sold to an external party or otherwise realized. The amendments are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted as of the beginning of an annual reporting period for which no financial statements (either interim or annual) have been issued or made available for issuance. The amendments should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the impact of this guidance.

ASU 2016-17 Consolidation: Interests Held through Related Parties That Are under Common Control

In October 2016, the FASB issued an accounting standards update concerning the evaluation of indirect interests held through related parties during the assessment of variable interest entities (“VIEs”). When identifying the primary beneficiary of a VIE, this update requires a reporting entity that acts as the single decision maker of that VIE to include, on a proportionate basis, those interests held through related parties under common control when assessing whether it holds a variable interest in that VIE. This is a change from previous GAAP, which required such indirect interests to be included in their entirety during this assessment. In the event that a reporting entity is not considered to be the primary beneficiary of the VIE following this assessment, the update does not change the requirement to assess whether the entity and its related parties under common control as a group possess the characteristics of a primary beneficiary. The guidance will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. When adopted, the amendments in this update must be applied retrospectively to all periods since Accounting Standards Update 2015-02 was adopted, which for the Company was the first quarter of 2016. The Company is currently evaluating the impact of this guidance, but does not expect any material impact on the Company’s financial position, results of operations or cash flows.

ASU 2016-18 Statement of Cash Flows: Restricted Cash

In November 2016, the FASB issued an accounting standards update concerning the presentation of restricted cash within the statement of cash flows. Existing GAAP does not provide guidance on the presentation or classification of movements in restricted cash. The update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period to total amounts shown on the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. When adopted, the guidance must be applied retrospectively to all periods presented. The Company is currently evaluating the impact of this guidance on XLB's statement of cash flows and does not expect any material impact on the Company's financial position or results of operations.

ASU 2017-04 Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued an accounting standards update concerning impairment testing of goodwill. The main provision of this guidance removes the existing “Step 2” required under current testing procedures. Under the existing Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedures that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the revised guidance, an entity‘s annual goodwill impairment review would include a “quantitative impairment test” in which it would compare the fair value of a reporting unit with its carrying amount. If the carrying amount exceeds the fair value then the entity should record an impairment charge for this difference, limited to the total goodwill allocated to the reporting unit (an entity would still have the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary). The update should be applied on a prospective basis. Disclosure of the nature of and reason for the change in accounting principle is required upon transition. This guidance is effective for goodwill impairment testing performed in fiscal years beginning after December 15, 2019. Early adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact of this guidance. The guidance will change the Company’s goodwill impairment procedures and may impact the Company’s financial position and results of operations, but only in the event of a goodwill impairment. There will be no impact on the statement of cash flows.

3. Acquisitions, Disposals and Contribution from Parent

(a) Partial Sale of New Ocean Capital Management Limited

On October 11, 2016, Fundamental Insurance Investment Ltd. a wholly-owned subsidiary of the Company, completed a partial sale of its common and preference shares in New Ocean Capital Management Limited ("New Ocean Capital Management") with other investors to an unrelated investor.

Fundamental Insurance Investment Ltd. received $3.9 million in proceeds for the sale of 7.8% of common shares and 6.4% of preference shares. The Company recorded a pre-tax gain of $3.5 million as a result of this transaction.

(b) Sale of XL Life Insurance and Annuity Company ("XLLIAC")

On September 30, 2016, X.L. America, Inc. ("XL America") and XL Life and Annuity Holding Company ("XLLAHC"), both indirect wholly-owned subsidiaries of the Company, completed the previously announced sale of the Company's wholly-owned subsidiary XLLIAC to Mutual of Omaha Insurance Company ("Omaha") pursuant to the terms of the Stock Purchase Agreement with Omaha.

XL America and XLLAHC received a closing date payment of $20.9 million in proceeds from the transaction, which was based upon the fair market value of the entity's investment assets and insurance licenses. The Company recorded a pre-tax gain of $3.7 million as a result of this transaction.

(c) Brooklyn Acquisition

On September 30, 2016, the Company's indirect, wholly-owned subsidiary, Catlin Holdings Limited, completed the acquisition ("Brooklyn Acquisition") of Brooklyn Underwriting Pty Limited and Brooklyn IT Pty Limited (collectively "Brooklyn"). Brooklyn is a specialty underwriting agency in Australia and Lloyd's-approved coverholder, serving brokers across Australia. The Company recorded definite-lived intangible assets of $22.9 million, which will be amortized over their estimated useful lives. See Note 9, "Goodwill and Other Intangible Assets," for further information.

(d) Allied Acquisition

Overview

On February 1, 2016, the Company's indirect, wholly-owned subsidiary, XL Reinsurance America Inc. ("XLRA"), completed the acquisition ("Allied Acquisition") of Allied International Holdings, Inc. ("Allied"). Allied is the holding company of Allied Specialty Insurance, Inc. and T.H.E. Insurance Company, an insurer of the outdoor entertainment industry in the U.S.

Acquisition Consideration

The Company made an initial payment of $75.7 million to acquire Allied. Additional contingent consideration will be paid based on production and underwriting profitability over a three year period subsequent to the acquisition date. The target payments of contingent consideration range from $7.5 million to $30.0 million. The Company currently believes the fair market value of these payments to be $15.0 million, resulting in total consideration of $90.7 million recorded for the acquisition.

Fair Value of Net Assets Acquired and Liabilities Assumed

The purchase price was allocated to the acquired assets and assumed liabilities of Allied based on estimated fair values on the acquisition date. The estimated fair value of the net assets acquired and liabilities assumed was $76.7 million, which includes indefinite-lived intangible assets of $8.0 million and other intangible assets of $6.0 million, which will be amortized over their estimated useful lives. Other adjustments to the historical carrying value of acquired assets and liabilities included: the estimated fair value of net loss and loss expense reserves at the present value of expected net loss and loss adjustment expense payments plus a risk premium, the estimated value of the business acquired at the present value of expected underwriting profits with net unearned premiums plus a risk margin less policy servicing costs, and the estimated fair value of real estate assets at appraised market values. In conjunction with the transaction, the Company recognized goodwill of $14.1 million, which is primarily attributable to the acquiree's underwriting expertise in a niche specialty risk business. The Company has allocated all of the $14.1 million of goodwill to its Insurance operations. See Note 9, "Goodwill and Other Intangible Assets," for further information.

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

(e) New Energy

On July 24, 2015, the Company purchased an additional 63.63% interest in New Energy Risk Inc. ("New Energy"), a provider of insurance risk management solutions within the alternative energy sector. A substantial portion of the additional shares was purchased directly from the family trusts of a Company employee who is responsible for managing the business generated by New Energy. Prior to the additional purchase, the Company held a 31.16% ownership interest in New Energy, which was accounted for as an equity method investment. The subsequent purchase raised the Company's ownership stake to 94.79%, which is deemed a controlling financial interest, and hence, the Company now consolidates New Energy. Subsequent to the additional purchase, the family trusts of the employee contributed their remaining 5.21% ownership interest in New Energy to XL Innovate Fund, LP ("XL Innovate Fund"), the entity that holds the Company's interest in New Energy, in partial satisfaction of the employee's aggregate 5.21% investment commitment to XL Innovate Fund. See Note 15, "Related Party Transactions," for further details of these transactions.

The Company paid approximately $8.8 million to acquire the additional interest in New Energy, and realized a gain of approximately $2.5 million, included within income from operating affiliates, in order to reflect the appropriate fair value adjustment to its existing investment previously accounted for under the equity method. The assets and liabilities of New Energy are now reflected in the consolidated financial statements of the Company based on their fair value as of the acquisition date, while goodwill of approximately $13.4 million was recorded in conjunction with the transaction. See Note 9, "Goodwill and Other Intangible Assets," for a further discussion of the goodwill recorded in conjunction with the acquisition.

(f) Contribution of Catlin

Overview

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

Pursuant to the terms of the Implementation Agreement, the Catlin Acquisition was implemented by way of a scheme of arrangement (the "Scheme") under Section 99 of the Companies Act 1981 of Bermuda, as amended (the "Companies Act"), and sanctioned by the Supreme Court of Bermuda (the "Court"). Immediately after such Court action, Catlin was merged with and into Green Holdings under Section 104H of the Companies Act, with Green Holdings as the surviving company, pursuant to the terms of that certain Merger Agreement, dated January 9, 2015 (the "Merger Agreement"), among XL-Ireland, Green Holdings and Catlin.

Green Holdings (including all associated goodwill and intangible assets) was contributed to the Company on the same date in exchange for $nil. As a transfer of a business under common control the contribution of Green Holdings to the Company has been treated as a deemed capital contribution to the Company.

The following table summarizes the carrying value of the assets and liabilities received by the Company at the contribution date:

(U.S. dollars in thousands)

ASSETS		
Fixed maturities, at fair value	$	6,266,489
Short-term investments, at fair value		634,599
Equity investments, at fair value		236,230
Investment in affiliates		216,843
Other investments		386,828
Total investments	$	7,740,989
Cash and cash equivalents (1)		1,267,565
Accrued investment income		35,063
Premiums receivable		2,545,188
Unpaid losses and loss expenses recoverable		1,493,267
Reinsurance balances receivable		299,579
Ceded unearned premiums		1,143,852
Deferred acquisition costs and value of business acquired		679,259
Intangible assets		988,000
Receivable from investments sold		9,633
Goodwill (2)		793,990
Other assets (2)		306,686
Total assets	$	17,303,071

LIABILITIES		
Unpaid losses and loss expenses	$	6,933,144
Unearned premiums		3,742,234
Reinsurance balances payable		1,441,749
Notes payable and debt		82,066
Payable for investments purchased		34,149
Deferred tax liability (2)		82,783
Other liabilities (2)		285,481
Total liabilities	$	12,601,606
Net assets before non-controlling interest	$	4,701,465
Non-controlling interest in equity of consolidated subsidiaries		562,285
Net assets received	$	4,139,180

(1) Includes Restricted cash

(2) Includes an increase of $15.9 million to goodwill from the amount initially recorded at June 30, 2015, as a result of several tax-related adjustments, including a decrease in other assets of $7.5 million, a decrease in deferred tax liability of $11.3 million, and an increase in other liabilities of $19.8 million.

(g) Sale of Operating Affiliate

On April 1, 2015, XL Re Ltd ("XL Re", which in June 2016 amalgamated with XL Insurance (Bermuda) Ltd ("XLIB") to form a new entity, XL Bermuda Ltd), completed the sale of all of its shares in ARX Holding Corp. ("ARX") to The Progressive Corporation ("Progressive") pursuant to the terms of the Stock Purchase Agreement with Progressive. XLB's shares in ARX represented approximately 40.6% of ARX's outstanding capital stock on a fully diluted basis at the time of the announcement. The carrying value of XL Re's shares in ARX was $220.2 million at the time of the sale.

XLB received $560.6 million in proceeds from the transaction, which was based upon the consolidated tangible net book value of ARX and its subsidiaries as of December 31, 2014, and certain other factors. Thus, the Company recorded a gain of $340.4 million as a result of this transaction.

4. Investments

(a) Fixed Maturities, Short-Term Investments and Equity Securities

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 non-credit related OTTI recorded in AOCI of the Company's AFS investments at December 31, 2016 and 2015, were as follows:

		Included in AOCI			
December 31, 2016 *(U.S. dollars in thousands)*	**Cost or Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Non-credit Related OTTI (1)**
Fixed maturities - AFS - Excluding Life Funds Withheld Assets					
U.S. Government and Government-Related/Supported ("U.S. Government")	$ 3,710,720	$ 52,331	$ (32,530)	$ 3,730,521	$ —
Corporate Financials	3,580,585	59,407	(25,276)	3,614,716	(36)
Corporate - Non Financials	6,281,725	132,095	(93,342)	6,320,478	—
Residential mortgage-backed securities - Agency ("RMBS – Agency")	3,949,266	42,771	(45,360)	3,946,677	—
Residential mortgage-backed securities - Non-Agency ("RMBS – Non-Agency")	257,703	23,124	(6,570)	274,257	(9,990)
Commercial mortgage-backed securities ("CMBS")	670,267	4,932	(10,903)	664,296	(338)
Collateralized debt obligations ("CDO")	379,532	498	(2,539)	377,491	(1,208)
Other asset-backed securities	872,884	12,710	(9,697)	875,897	(821)
U.S. States and political subdivisions of the States	2,399,678	85,862	(7,428)	2,478,112	—
Non-U.S. Sovereign Government, Provincial, Supranational and Government-Related/Supported ("Non-U.S. Government")	5,035,890	112,760	(120,119)	5,028,531	—
Total fixed maturities - AFS - Excluding Life Funds Withheld Assets	$ 27,138,250	$ 526,490	$ (353,764)	$ 27,310,976	$ (12,393)
Total short-term investments - Excluding Life Funds Withheld Assets	626,142	228	(1,176)	625,194	—
Total equity securities - Excluding Life Funds Withheld Assets	995,934	48,931	(8,210)	1,036,655	—
Total investments - AFS - Excluding Life Funds Withheld Assets	$ 28,760,326	$ 575,649	$ (363,150)	$ 28,972,825	$ (12,393)
Fixed maturities - AFS - Life Funds Withheld Assets					
U.S. Government	$ 8,468	$ 2,108	$ —	$ 10,577	$ —
Corporate - Financials	376,018	63,249	—	439,267	—
Corporate Non Financials	797,652	217,689	—	1,015,341	—
RMBS – Agency	470	143	—	613	—
RMBS – Non-Agency	19,120	2,646	—	21,766	—
CMBS	77,763	16,478	—	94,241	—
Other asset-backed securities	84,541	17,019	—	101,560	—
Non-U.S. Government	454,695	169,982	—	624,677	—
Total fixed maturities - AFS - Life Funds Withheld Assets	$ 1,818,727	$ 489,314	$ —	$ 2,308,042	$ —
Total investments - AFS	$ 30,579,053	$ 1,064,963	$ (363,150)	$ 31,280,867	$ (12,393)

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

December 31, 2015 *(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 - Excluding Life Funds Withheld Assets					
U.S. Government	$ 4,892,081	$ 51,869	$ (33,875)	$ 4,910,075	$ —
Corporate - Financials	3,509,917	48,206	(23,435)	3,534,688	—
Corporate - Non Financials	6,769,228	121,488	(98,780)	6,791,936	—
RMBS – Agency	3,570,034	67,794	(18,819)	3,619,009	—
RMBS – Non-Agency	311,560	25,634	(8,655)	328,539	(13,431)
CMBS	401,034	6,387	(4,825)	402,596	(329)
CDOs	41,679	4	(9,273)	32,410	(1,208)
Other asset-backed securities	1,162,294	17,665	(13,450)	1,166,509	(1,144)
U.S. States and political subdivisions of the States	2,514,300	125,164	(7,394)	2,632,070	—
Non-U.S. Government	5,247,571	100,358	(97,904)	5,250,025	—
Total fixed maturities - AFS- Excluding Life Funds Withheld Assets	$ 28,419,698	$ 564,569	$ (316,410)	$ 28,667,857	$ (16,112)
Total short-term investments - Excluding Life Funds Withheld Assets	539,032	967	(2,416)	537,583	—
Total equity securities - Excluding Life Funds Withheld Assets	834,079	89,993	(45,153)	878,919	—
Total investments - AFS - Excluding Life Funds Withheld Assets	$ 29,792,809	$ 655,529	$ (363,979)	$ 30,084,359	$ (16,112)
Fixed maturities - AFS - Life Funds Withheld Assets					
U.S. Government	$ 10,721	$ 2,021	$ —	$ 12,742	$ —
Corporate - Financials	531,016	67,220	—	598,236	—
Corporate - Non Financials	1,132,926	175,702	—	1,308,628	—
RMBS - Agency	591	161	—	752	—
RMBS – Non-Agency	24,401	2,552	—	26,953	—
CMBS	107,968	14,514	—	122,482	—
Other asset-backed securities	132,674	17,121	—	149,795	—
Non-U.S. Government	737,735	195,781	—	933,516	—
Total fixed maturities - AFS - Life Funds Withheld Assets	$ 2,678,032	$ 475,072	$ —	$ 3,153,104	$ —
Total investments - AFS	$ 32,470,841	$ 1,130,601	$ (363,979)	$ 33,237,463	$ (16,112)

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(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.

The cost (amortized cost for fixed maturities and short-term investments) and fair value of the Company's Trading investments at December 31, 2016 and 2015 were as follows:

December 31, 2016 *(U.S. dollars in thousands)*	**Amortized Cost**	**Fair Value**
Fixed maturities - Trading - Life Funds Withheld Assets		
U.S. Government	$ 14,361	$ 14,708
Corporate - Financials	450,990	468,175
Corporate - Non Financials	611,863	643,030
RMBS - Agency	835	852
RMBS - Non-Agency	101	109
CMBS	5,242	5,526
Other asset-backed securities	38,342	39,446
U.S. States and political subdivisions of the States	219	224
Non-U.S. Government	426,225	444,944
Total fixed maturities - Trading - Life Funds Withheld Assets	$ 1,548,178	$ 1,617,014
Total short-term investments - Trading - Life Funds Withheld Assets	$ 9,536	$ 9,563
Total investments - Trading - Life Funds Withheld Assets	$ 1,557,714	$ 1,626,577

December 31, 2015 *(U.S. dollars in thousands)*	**Amortized Cost**	**Fair Value**
Fixed maturities - Trading - Life Funds Withheld Assets		
U.S. Government	$ 4,957	$ 4,990
Corporate - Financials	$ 344,070	$ 335,956
Corporate - Non Financials	509,441	493,621
RMBS - Agency	370	368
CMBS	4,874	4,803
Other asset-backed securities	26,405	25,700
Non-U.S. Government	373,492	370,261
Total Fixed Maturities - Trading - Life Funds Withheld Assets	1,263,609	1,235,699
Total short-term investments - Trading - Life Funds Withheld Assets	60,176	60,330
Total investments - Trading - Life Funds Withheld Assets	1,323,785	1,296,029

At December 31, 2016 and 2015, approximately 2.6% and 2.0%, 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 2.8% and 14.4% of the gross unrealized losses in the Company's fixed income investment portfolio, excluding Life Funds Withheld Assets, at December 31, 2016 and 2015, respectively, related to securities that were below investment grade or not rated.

Contractual Maturities Summary

The contractual maturities of AFS and Trading fixed income securities at December 31, 2016 and 2015 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, 2016		December 31, 2015	
(U.S. dollars in thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Fixed maturities - AFS - Excluding Life Funds Withheld Assets				
Due less than one year	$ 2,009,138	$ 2,022,534	$ 2,085,684	$ 2,082,456
Due after 1 through 5 years	12,208,771	12,269,393	13,798,903	13,884,454
Due after 5 through 10 years	5,451,637	5,473,577	5,669,004	5,728,728
Due after 10 years	1,339,052	1,406,853	1,379,506	1,423,156
	$ 21,008,598	$ 21,172,357	$ 22,933,097	$ 23,118,794
RMBS – Agency	$ 3,949,266	$ 3,946,677	$ 3,570,034	$ 3,619,009
RMBS – Non-Agency	257,703	274,258	311,560	328,539
CMBS	670,267	664,296	401,034	402,596
CDO	379,532	377,491	41,679	32,410
Other asset-backed securities	872,884	875,897	1,162,294	1,166,509
Total mortgage and asset-backed securities	$ 6,129,652	$ 6,138,619	$ 5,486,601	$ 5,549,063
Total fixed maturities - AFS - Excluding Life Funds Withheld Assets	$ 27,138,250	$ 27,310,976	$ 28,419,698	$ 28,667,857
Fixed maturities - AFS - Life Funds Withheld Assets				
Due less than one year	$ 71,207	$ 80,749	$ 81,700	$ 92,921
Due after 1 through 5 years	289,710	318,605	386,810	416,743
Due after 5 through 10 years	274,727	324,759	491,621	558,805
Due after 10 years	1,001,189	1,365,749	1,452,267	1,784,653
	$ 1,636,833	$ 2,089,862	$ 2,412,398	$ 2,853,122
RMBS – Agency	$ 470	$ 613	$ 591	$ 752
RMBS – Non-Agency	19,121	21,767	24,401	26,953
CMBS	77,762	94,240	107,968	122,482
Other asset-backed securities	84,541	101,560	132,674	149,795
Total mortgage and asset-backed securities	181,894	218,180	265,634	299,982
Total fixed maturities - AFS - Life Funds Withheld Assets	$ 1,818,727	$ 2,308,042	$ 2,678,032	$ 3,153,104
Total fixed maturities - AFS	$ 28,956,977	$ 29,619,018	$ 31,097,730	$ 31,820,961
Fixed maturities - Trading - Life Funds Withheld Assets				
Due less than one year	$ 59,138	$ 59,553	$ 4,573	$ 5,096
Due after 1 through 5 years	322,574	328,997	278,163	272,220
Due after 5 through 10 years	507,631	521,505	280,487	277,920
Due after 10 years	614,315	661,026	668,737	649,592
	$ 1,503,658	$ 1,571,081	$ 1,231,960	$ 1,204,828
RMBS – Agency	835	852	370	368
RMBS – Non-Agency	101	109	—	—
CMBS	5,242	5,526	4,874	4,803
Other asset-backed securities	38,342	39,446	26,405	25,700
Total mortgage and asset-backed securities	44,520	45,933	31,649	30,871
Total fixed maturities - Trading - Life Funds Withheld Assets	1,548,178	1,617,014	1,263,609	1,235,699

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 to collateralize XLB's 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 included in pledged assets are Life Funds Withheld Assets. Additionally, certain deposit liabilities and annuity contracts require the use of pledged assets. As of December 31, 2016 and 2015, the Company had $17.0 billion and $18.2 billion in pledged assets, respectively.

Classification of Fixed Income Securities

On May 1,2014, 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 the Life Reinsurance Subsidiary, as discussed in Note 1.

(b) Gross Unrealized Losses

The following is an analysis of how long the AFS securities at December 31, 2016 and 2015 had been in a continual unrealized loss position:

	Less than 12 months		Equal to or greater than 12 months	
December 31, 2016 *(U.S. dollars in thousands)*	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Fixed maturities and short-term investments - AFS				
U.S. Government	$ 2,395,167	$ (30,348)	$ 43,873	$ (2,237)
Corporate – Financials	1,121,106	(19,073)	59,091	(6,205)
Corporate – Non Financials	2,229,961	(62,051)	205,829	(31,368)
RMBS – Agency	2,436,966	(41,124)	129,740	(4,236)
RMBS – Non-Agency	22,137	(1,027)	72,125	(5,543)
CMBS	469,653	(9,599)	9,665	(1,304)
CDO	105,653	(58)	2,752	(2,481)
Other asset-backed securities	671,782	(3,830)	34,687	(5,953)
U.S. States and political subdivisions of the States	459,407	(6,991)	4,287	(437)
Non-U.S. Government	1,795,805	(75,593)	288,490	(45,480)
Total fixed maturities and short-term investments - AFS	$ 11,707,637	$ (249,694)	$ 850,539	$ (105,244)
Total equity securities	$ 129,810	$ (8,210)	$ —	$ —

	Less than 12 months		Equal to or greater than 12 months	
December 31, 2015 *(U.S. dollars in thousands)*	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Fixed maturities and short-term investments - AFS				
U.S. Government	$ 3,590,148	$ (29,036)	$ 72,667	$ (4,873)
Corporate – Financials	1,645,501	(13,286)	102,022	(10,163)
Corporate – Non Financials	3,280,571	(74,243)	224,659	(24,667)
RMBS – Agency	1,153,475	(11,324)	219,156	(7,495)
RMBS – Non-Agency	50,122	(2,461)	100,017	(6,194)
CMBS	125,056	(2,056)	78,651	(2,769)
CDO	12,311	(516)	20,096	(8,757)
Other asset-backed securities	570,608	(5,216)	57,424	(8,235)
U.S. States and political subdivisions of the States	567,227	(6,629)	12,259	(765)
Non-U.S. Government	1,919,697	(53,427)	474,929	(46,714)
Total fixed maturities and short-term investments - AFS	$ 12,914,716	$ (198,194)	$ 1,361,880	$ (120,632)
Total equity securities	$ 356,742	$ (45,153)	$ —	$ —

The Company had gross unrealized losses totaling $363.2 million on 3,017 securities out of a total of 8,413 held at December 31, 2016 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, in conjunction with the Company's investment managers, 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.

(c) Net Investment Income

Net investment income for the years ended December 31 is derived from the following sources:

(U.S. dollars in thousands)	**2016**	**2015**
Fixed maturities, short term investments and cash equivalents - Excluding Life Funds Withheld Assets	697,160	706,962
Fixed maturities, short term investments and cash equivalents - Life Funds Withheld Assets	154,751	187,489
Equity securities and other investments	34,619	27,995
Interest on funds withheld	10,276	10,835
Total gross investment income	896,806	933,281
Investment expenses	(85,876)	(78,439)
Total net investment income	810,930	854,842

(d) Net Realized and Unrealized Gains (Losses)

The following represents an analysis of net realized gains (losses), the change in unrealized gains (losses) on trading securities and net realized and unrealized gains (losses) on investment related derivative instruments for the years ended December 31:

(U.S. dollars in thousands)	2016	2015
Fixed maturities, short term investments, cash and cash equivalents - Excluding Life Funds Withheld Assets:		
Gross realized gains	$ 194,708	$ 175,145
Gross realized losses on investments sold	(150,794)	(133,678)
OTTI on investments, net of amounts transferred to other comprehensive income	(48,432)	(54,273)
Net realized gains (losses)	$ (4,518)	$ (12,806)
Equity securities:		
Gross realized gains	$ 140,864	$ 79,556
Gross realized losses on investments sold	(11,882)	(49,223)
OTTI on investments, net of amounts transferred to other comprehensive income	(30,126)	(15,954)
Net realized gains (losses)	$ 98,856	$ 14,379
Other investments:		
Gross realized gains	$ 37,253	$ 39,182
Gross realized losses on investments sold	(16,376)	(19,618)
OTTI on investments, net of amounts transferred to other comprehensive income	—	(12,660)
Net realized gains (losses)	$ 20,877	$ 6,904
Net realized gains (losses) on investments - Excluding Life Funds Withheld Assets	**$ 115,215**	**$ 8,477**
Fixed maturities, short term investments, cash and cash equivalents - Life Funds Withheld Assets:		
Gross realized gains	$ 185,487	$ 259,798
Gross realized losses on investments sold	(32,898)	(36,526)
Net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets	109,458	(27,734)
OTTI on investments, net of amounts transferred to other comprehensive income	(2,598)	(13,357)
Net realized gains (losses) on investments - Life Funds Withheld Assets	**$ 259,449**	**$ 182,181**
Net realized gains (losses) on investments	**$ 374,664**	**$ 190,658**
Net realized and unrealized gains (losses) on investment related derivative instruments	$ 2,521	$ (8,616)
Net realized gains (losses) on investments and net realized and unrealized gains (losses) on investment related derivative instruments	**$ 377,185**	**$ 182,042**
Change in unrealized gains (losses):		
Fixed maturities – AFS - Excluding Life Funds Withheld Assets	(84,721)	$ (469,053)
Fixed maturities - AFS - Life Funds Withheld Assets	14,244	(405,155)
Fixed maturities – HTM	—	—
Equity securities	(4,119)	(59,619)
Other Investments	(63,096)	(5,677)
Net change in unrealized gains (losses) on investments	$ (137,692)	$ (939,504)
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	**$ 239,493**	**$ (757,462)**

The components of OTTI charges of $78.6 million, for the year ended December 31,2016 compared to $82.9 million for the year ended December 31, 2015, as defined in Note 2(g), "Significant Accounting Policies - Other-Than-Temporary Impairments of Available for Sale," for investments excluding Life Funds Withheld Assets for the year ended December 31, 2016 were:

- $29.3 million related to investments that we no longer intend to hold for a period sufficient to recover their fair value to cost, compared to $29.4 million for the year ended December 31, 2015.
- $16.4 million related to equity investments that were in a loss position for more than 11 months or impaired by more than 50%, compared to $20.0 million for the year ended December 31, 2015.

- $3.0 million for structured securities 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. The charges for the year ended December 31, 2015 were $1.3 million.
- Nil related to other investments, compared to $8.7 million for the year ended December 31,2015.
- $29.9 million related to foreign exchange losses, compared to $23.5 million for the year ended December 31,2015.

The following table sets forth the amount of credit loss impairments on fixed income securities, for which a portion of the OTTI loss was recognized in OCI, held by the Company as of years ended December 31, 2016 and 2015 and the corresponding changes in such amounts.

Credit Loss Impairments *(U.S. dollars in thousands)*	**2016**	**2015**
Opening balance at beginning of indicated period	$ 32,190	$ 91,570
Credit loss impairment recognized in the current period on securities not previously impaired	12,867	9,699
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(15,269)	(69,648)
Credit loss impairments previously recognized on securities impaired to fair value during the period	—	(2,629)
Additional credit loss impairments recognized in the current period on securities previously impaired	1,947	946
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(2,679)	2,252
Closing balance at end of indicated period	$ 29,056	$ 32,190

5. Investments in Affiliates

Investments in affiliates comprised the following at December 31, 2016 and 2015. See Note 2(c), "Significant Accounting Policies - Total Investments - Investments in Affiliates," for a description of the Company's accounting policy for these assets.

(U.S. dollars in thousands)	**2016**	**2015**
Investment fund affiliates	$ 1,674,925	$ 1,386,837
Operating affiliates	502,720	322,062
Total investment affiliates	$ 2,177,645	$ 1,708,899

(a) Investment Fund Affiliates

The Company has invested in certain hedge funds, including funds managed by certain of its investment manager affiliates, and in certain private equity and private credit funds (collectively, "private investment funds") that are accounted for under the equity method due to XLB's ownership percentages in the limited partnerships, LLCs or other similar investment vehicles that form the funds. Collectively, these investments in hedge funds and private investment funds are classified as "investment fund affiliates". At December 31, 2016 and 2015, the hedge fund portfolio, accounted for as hedge fund affiliates, employed four strategies.

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 on a combined basis (shown as "Combined Funds") are included below:

	XL Investment			Combined Funds
Year Ended December 31, 2016 *(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)**
Hedge Funds:				
Arbitrage	$ 165,633	$ 965	12.3%	$ 1,343,655
Directional	672,934	1,480	7.4%	9,039,159
Event Driven (2)	297,836	9,676	2.6%	11,341,870
Multi-Style	180,972	29,549	3.3%	5,557,296
Total hedge funds	$ 1,317,375	$ 41,670	4.8%	$ 27,281,980
Private Investment Funds:	357,550	29,088	10.8%	3,318,073
Total Investment Fund Affiliates	$ 1,674,925	$ 70,758	5.5%	$ 30,600,053
Year Ended December 31, 2015				
Hedge Funds:				
Arbitrage	$ 190,016	$ 612	8.6%	$ 2,202,112
Directional	551,262	31,012	7.2%	7,643,134
Event Driven (2)	285,823	5,592	3.0%	9,460,387
Multi-Style	57,097	5,452	3.6%	1,600,959
Total hedge funds	$ 1,084,198	$ 42,668	5.2%	$ 20,906,592
Private Investment Funds:	302,639	30,652	9.5%	3,195,204
Total Investment Fund Affiliates	$ 1,386,837	$ 73,320	5.8%	$ 24,101,796

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(1) Total estimated net assets are generally as at November 30 for hedge fund affiliates and September 30 for private investment fund affiliates.

(2) The Company accounts for its investment in certain funds using the equity method where the Company has significant influence over the related investment management company even though the ownership percentage is less than three percent.

In general, the hedge 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 upon the specific terms of each fund. Certain hedge 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 only the portion that is not gated settled in cash shortly after the redemption date.

The carrying value of the Company’s holdings in hedge fund affiliates that are subject to lockups and/or that have redemption gate provisions in their governing documents at December 31, 2016 and 2015 was $553.2 million and $382.0 million, respectively.

Certain hedge 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, 2016 and 2015, the carrying value of the Company's hedge fund affiliates held in side-pockets was $23.5 million and $18.2 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 strategic (re)insurance affiliates and investment management companies’ securities or other forms of direct ownership interests across the capital structure. 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 Investment		Combined Investee Summarized Financial Data (Estimated)			
Year ended December 31, 2016 *(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)**
Strategic and other operating affiliates	$ 446,695	$ 12,622	$ 5,353,905	$ 3,791,300	$ 1,030,859	$ 30,424
Investment manager affiliates (1)	56,025	31,775	752,336	72,114	337,782	257,004
Total operating affiliates	$ 502,720	$ 44,397	$ 6,106,241	$ 3,863,414	$ 1,368,641	$ 287,428
Year ended December 31, 2015						
Strategic and other operating affiliates	251,348	33,608	4,280,976	3,293,873	847,131	91,701
Investment manager affiliates (1)	70,714	11,132	708,605	95,826	206,672	90,491
Total operating affiliates	$ 322,062	$ 44,740	$ 4,989,581	$ 3,389,699	$ 1,053,803	$ 182,192

(1) During the years ended December 31, 2016 and 2015, the Company received distributions from its Investment Manager Affiliates of approximately $35.9 million and $25.3 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 18(c), "Commitments and Contingencies – Investments in Affiliates", for further information regarding commitments related to investments in affiliates.

Strategic and Other Operating Affiliates

At December 31, 2016, the Company's larger strategic and other operating affiliates included Privilege Underwriters, Inc. and its affiliates ("PURE Group"), HighVista III, Ltd, Westaim HIIG LP ("Westaim HIIG"), Five Oaks Investment Corp ("Five Oaks") and CATGS I, LLC.

The Company has an investment of $129.7 million related to an acquisition made in the fourth quarter of 2015 in the PURE Group, an insurance provider specializing in products for high net worth individuals. The PURE Group investments consist of: (i) a $77.5 million purchase of 9.9% of the ordinary common units and preferred units of Privilege Group Holdings LP, and 9.9% of the units of Privilege Group Holdings GP, LLC; and (ii) a total of $50.0 million purchases, at par value, of ten year surplus notes issued by Privilege Underwriters Reciprocal Exchange. Under the terms of an agreement between the parties, at December 31, 2016, the PURE Group has the option to require the Company to purchase a remaining $25.0 million of ten year surplus note, at par, over a commitment period expiring no later than November 2020.

The Company has an investment of $106.6 million, representing a 29.5% ownership interest in HighVista III, Ltd., an investment company with the objective to generate attractive, long-term risk-adjusted returns with an emphasis on capital preservation and diversification through active asset allocation. HighVista III, Ltd. seeks to achieve these goals through a range of exposures to global equities, sovereign bonds, credit markets, inflation-indexed bonds, and real assets through a hybrid and proprietary approach.

The Company has an investment of $33.1 million, representing a 13.1% ownership interest in Westaim HIIG. The primary purpose of Westaim HIIG is to invest in interests of Houston International Insurance Group ("HIIG"), a specialty insurance provider. Westaim HIIG holds a majority interest in the common stock of HIIG.

The Company has an investment of $25.5 million, representing a 23.1% ownership interest in Five Oaks, 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 addition, the Company holds warrants to purchase an additional 3.753 million shares at $13.11 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.

The Company has an investment of $17.5 million, representing a 50.0% ownership interest in CATGS I, LLC. The remaining 50.0% is held by one other investor. The Company does not control the entity, whose primary purpose is the purchase and leasing of equipment.

On December 15, 2014, the Company announced it had entered into a Stock Purchase Agreement to sell its interests in one of its largest strategic and other operating affiliates, ARX, to The Progressive Corporation ("Progressive"). For further information, see Note 3(g), "Acquisitions, Disposals and Contribution from Parent - Sale of Operating Affiliate."

Investment Manager Affiliates

At December 31, 2016, the Company's larger investment manager affiliates included Highfields Capital, a global equity investment firm, and Polar Capital, an investment firm offering traditional and alternative products.

6. Other Investments

Other investments comprised the following at December 31, 2016 and 2015. See Note 2(c), "Significant Accounting Policies - Total Investments - Other Investments," for a description of the Company's accounting policy for these assets:

Year ended December 31, *(U.S. dollars in thousands)*	**2016**	**2015**
Hedge Funds:		
Arbitrage	$ 165,053	$ 205,117
Directional	159,701	276,277
Event Driven	2,877	5,427
Multi-Style	4,341	57,249
Total hedge funds	$ 331,972	$ 544,070
Private investment funds	175,562	243,692
Overseas deposits	493,594	479,187
Structured transactions	142,698	138,608
Other	20,721	26,616
Total other investments	$ 1,164,547	$ 1,432,173

(a) Hedge Funds and Private Investment Funds

At December 31, 2016 and 2015, the hedge fund portfolio, accounted for as other investments, employed four strategies.

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 upon the specific terms of each fund.

Certain hedge 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 that is not gated settled in cash shortly after the redemption date.

The fair value of the Company's holdings in hedge funds that may be subject to lockups and/or that have redemption gate provisions in their governing documents at December 31, 2016 and 2015 was $223.3 million and $399.6 million, respectively. The Company did not have any holdings in funds where a redemption gate was imposed at December 31, 2016 or 2015.

Certain hedge 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, 2016 and 2015, the fair value of hedge funds held in side-pockets was $11.3 million and $26.0 million, respectively. The underlying assets within these positions are generally expected to be liquidated over a period of approximately two to four years.

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 hedge funds and private investment funds:

Year ended December 31, *(U.S. dollars in thousands)*	Net Unrealized Gains (Losses) 2016	Net Unrealized Gains (Losses) 2015	Net Realized Gains (Losses) 2016	Net Realized Gains (Losses) 2015
Hedge funds	$ 134,114	$ 188,698	$ 12,212	$ 12,769
Private investment funds	36,775	37,457	8,636	9,145
Total	$ 170,889	$ 226,155	$ 20,848	$ 21,914

(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

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 agreed to 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, XLB purchased a payment obligation (the "Obligation") in an aggregate principal amount of $150.0 million from National Indemnity. At December 31, 2016, the outstanding Obligation was recorded in other investments at a carrying value of $140.6 million, pays a coupon of 3.5%, and is being accreted to $150.0 million over the 11.5 years 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, XLB purchased notes with an aggregate face amount of $155.0 million. On October 29, 2014 XLB purchased notes with an aggregate face amount of $81.9 million. The issuer of both series of 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. During the year ended December 31, 2015 the Company recorded losses of $8.6 million , due to other than temporary declines in value of these investments.

During the fourth quarter of 2015, XLB entered into transactions whereby it acquired the underlying corporate debt and preferred equity securities in return for the cancellation of the notes. The acquired securities are included in the available for sale fixed maturities and equity securities portfolios. In connection with the cancellation of the notes, the Company recorded realized investment losses of $6.7 million.

See Note 18(b), "Commitments and Contingencies - Other Investments," for further information regarding commitments related to other investments.

7. 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 an adopted comprehensive framework of investment decision authorities ("Authorities Framework") by the XLB Board of Directors, which is intended to align the risk profile of the Company's investment portfolio to be consistent with management's risk tolerance, and other guidelines established by the Risk and Finance Committee. The Company recognizes all derivatives as either assets or liabilities on the balance sheets and measures those instruments at fair value, with the changes in fair values 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, 2016 and 2015:

	2016				2015			
(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	$ 1,396,801	$ 85,175	$ 583,722	$ 25,750	$ 1,667,585	$ 64,289	$ 674,976	$ 11,941
Total derivatives designated as hedging instruments	$ 1,396,801	$ 85,175	$ 583,722	$ 25,750	$ 1,667,585	$ 64,289	$ 674,976	$ 11,941
Derivatives not designated as hedging instruments:								
Investment Related Derivatives:								
Foreign exchange exposure	10,049	190	273,767	12,137	102,234	2,888	144,707	1,702
Credit exposure	32,500	1,077	82,500	6,978	8,433	652	71,614	12,067
Financial market exposure	5	5	—	—	37	77	26,500	417
Other Non-Investment Derivatives:								
Foreign exchange contracts	181,300	1,208	—	—	194,566	2,009	—	—
Credit exposure	—	—	24,490	340	29,874	31	—	—
Guaranteed minimum income benefit contract	43,553	19,499	43,553	19,499	46,032	19,368	43,032	19,368
Modified coinsurance funds withheld contracts including life retrocession embedded derivative (2)	59,775	—	4,048,446	—	60,667	—	4,620,879	—
Other	$ 15,000	$ 342	$ —	$ —	$ —	$ —	$ —	$ —
Total derivatives not designated as hedging instruments	$ 342,182	$ 22,321	$ 4,472,756	$ 38,954	$ 441,843	$ 25,025	$ 4,906,732	$ 33,554
Total derivatives		$ 107,496		$ 64,704		$ 89,314		$ 45,495
Counterparty netting		(17,947)		(17,947)		(3,087)		(3,087)
Total derivatives net of counterparty netting (1)		89,549		46,757		86,227		42,408
Cash collateral held/paid (3)		(36,980)		(5,810)		(30,958)		—
Total derivatives as recorded in the balance sheet		$ 52,569		$ 40,947		$ 55,269		$ 42,408

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(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. The Company often enters into different types of derivative contracts with a single counterparty and these contracts are covered under netting agreements.

(2) 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. Included in the liability derivative notional amount as of December 31, 2016 is the cumulative net realized and unrealized loss on the life retrocession embedded derivative of $937.7 million

(3) As of December 31, 2016, the Company held cash collateral related to foreign currency derivative positions and certain other derivative positions of $37.0 million for derivatives in an asset position and paid cash collateral of $5.8 million for derivatives in a liability position. As of December 31, 2015, the Company held cash collateral related to a foreign currency derivative position and certain other derivative positions of $31.0 million for derivatives in an asset position and paid cash collateral of nil for derivatives in a liability position. The assets and liabilities related to the net collateral paid or held were recorded as Other assets and Other liabilities within the Consolidated Balance Sheets as the collateral and derivative positions are not intended to be settled on a net basis

(a) Derivative Instruments Designated as Hedges of a 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, 2016 and 2015, 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 the British Pound 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 years ended December 31, 2016 and 2015.

Derivative Instruments Designated as Hedges of a Net Investment in a Foreign Operation – Summary *(U.S. dollars in thousands)*		**2016**		**2015**
Weighted average of U.S. dollar equivalent of foreign denominated net assets	$	2,316,538	$	1,769,106
Derivative gains (losses) (1)	$	130,365	$	106,876

(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.

(b) 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 . The impacts are all recorded through Net realized and unrealized gains (losses) on derivatives in the income statement for the years ended December 31, 2016 and 2015:

Net Realized and Unrealized Gains (Losses) on Derivative Instruments *(U.S. dollars in thousands)*		**2016**		**2015**
Investment Related Derivatives:				
Interest rate exposure	$	781	$	(2,347)
Foreign exchange exposure		(592)		(1,542)
Credit exposure		(1,539)		(2,537)
Financial market exposure		(2,494)		(2,190)
Other Non-Investment Derivatives:				
Foreign exchange exposure		(1,701)		60,319
Credit exposure		4,424		1,375
Modified coinsurance funds withheld contract, including life retrocession embedded derivative		3,300		45
Other	$	342		
Total derivatives not designated as hedging instruments	$	2,521	$	53,123
Amount of gain (loss) recognized in income from ineffective portion of fair value hedges		—		—
Net realized and unrealized gains (losses) on derivative instruments	$	2,521	$	53,123
Net realized and unrealized gains (losses on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	$	(540,090)	$	(151,691)

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

Investment Related Derivatives

The Company, either directly or through third party investment managers, may use derivative instruments within its investment portfolio, including interest rate swaps and options on interest rate swaps, total return swaps, credit derivatives (including single name and index credit default swaps and options on credit default swaps), equity options, forward contracts and future (including foreign exchange, bond and stock index, interest rate and commodity futures), primarily as a means of reducing investment risk by economically hedging exposures to interest rate, credit spread, equity price changes and foreign currency risk or, in limited instances, for efficient portfolio management. When using exchange traded or cleared over-the-counter derivatives, the Company is exposed to the credit risk of the applicable clearing house and of the Company's futures commission merchant. When using uncleared over-the-counter derivatives, the Company is exposed to credit risk in the event of non-performance by the counterparties to such derivative contracts. To manage this risk, the Company requires appropriate legal documentation with counterparties that has been reviewed and negotiated by legal counsel on behalf of the Company and complies with the Company’s documentation standards investment guidelines and policies.

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 and swaptions, 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 securities of selected issuers. Credit derivatives may also be used to efficiently gain exposure to credit markets, subject to guidelines that prohibit the introduction of effective leverage.

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. Stock index futures may be sold to facilitate the timely and efficient reduction of equity exposure. Equity option strategies, including both purchases and sales of options, may be used to add value or reduce exposure with overlay or other strategies. From time to time, the Company may enter into other financial market exposure derivative contracts on various indices and other underlying financial instruments including, but not limited to, equity options, total return swaps and commodity contracts.

Other Non-Investment Derivatives

Foreign Exchange Contracts

On January 9, 2015, XL-Cayman, an intermediate Parent, entered into deal contingent deliverable Fx Forwards with Morgan Stanley Capital Services LLC and Goldman Sachs International. The purpose of the FX Forwards was to mitigate the risk of foreign currency exposure related to the Catlin Acquisition. Following the closing of the Catlin Acquisition, the FX Forwards were settled.

In connection with the Catlin Acquisition and the FX Forwards, during the first quarter of 2015 certain foreign exchange contracts utilized to hedge the fair value of certain net investments in foreign operations were de-designated as hedging instruments; subsequently during the second quarter, the hedging relationships were then re-established.

In the fourth quarter of 2015, the Company entered into an average rate option to mitigate the risk of foreign currency exposure to certain cash flows denominated in the British Pound. The option matured in the fourth quarter of 2016. Additionally, the Company has a small forward purchase to mitigate exposure to certain cash flows denominated in New Zealand dollars.

Credit Exposure

During the year ended December 31, 2016, the Company entered into a non-investment-related credit derivative relating to a number of reference pool mortgage tranches associated with actual mortgage loans that were securitized into agency mortgage-backed securities and sold as Structured Agency Credit Risk Notes. As of December 31, 2016, there was no reported event of default on this obligation. 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 and Funds Withheld Contracts, including Life Retrocession Embedded Derivative

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.

In addition, the Company entered into the GreyCastle Life Retro Arrangements as described in Note 2(c), "Significant Accounting Policies - Total Investments - Investments Related to Life Retrocession Arrangements written on a Funds Withheld Basis," and "Note 2(e), "Significant Accounting Policies - Reinsurance,". The embedded derivative related to the GreyCastle 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 impact of the GreyCastle Life Retro Arrangements on the Company's results for the years ended December 31, 2016 and 2015 was as follows:

Impact of GreyCastle Life Retro Arrangements *(U.S. dollars in thousands)*	**2016**	**2015**
Underwriting profit (loss) (1)	$ —	$ 605
Net investment income - Life Funds Withheld Assets	154,751	187,489
Net realized gains (losses) on investments sold - Life Funds Withheld Assets	152,589	223,272
Net unrealized gains (losses) on investments, Trading - Life Funds Withheld Assets	109,458	(27,734)
OTTI on investments - Life Funds Withheld Assets	(2,598)	(13,357)
Exchange (gains) losses	(8,988)	4,788
Other income and expenses	(154)	2,280
Net realized and unrealized gains (losses) on life retrocession embedded derivatives and derivative instruments - Life Funds Withheld Assets	(540,090)	(151,691)
Net income (loss)	$ (135,032)	$ 225,652
Change in net unrealized gains (losses) on investments - Life Funds Withheld Assets	(4,502)	(421,604)
Change in adjustments related to future policy benefit reserves	62,295	170,688
Change in cumulative translation adjustment - Life Funds Withheld Assets	77,239	25,869
Total changes to other comprehensive income as a result of GreyCastle Life Retro Arrangements	$ 135,032	$ (225,047)
Comprehensive income (loss)	$ —	$ 605

(1) The underwriting profit of $0.6 million in 2015 relate to premium adjustments relating to the GreyCastle Life Retro Arrangements transactions, which was completed on May 30, 2014. Excluding these transactions, the impact to comprehensive income relating to the GreyCastle Life Retro Arrangements was nil for the years ended December 31, 2016 and 2015.

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

The change in the value of the life retrocession embedded derivative, which includes the interest income, realized and unrealized gains and losses on Life Funds Withheld Assets and certain related expenses is as follows:

Components of Life Retrocession Embedded Derivative and Derivative Instruments - Life Funds Withheld Assets:

(U.S. dollars in thousands)		2016		2015
Interest income - Life Funds Withheld Assets	$	(161,887)	$	(193,568)
Realized and unrealized gains (losses) on Life Funds Withheld Assets		(312,074)		180,134
Other		155		351
Net realized and unrealized gains (losses) on life retrocession embedded derivative	$	(473,806)	$	(13,083)
Net adjustments related to future policy benefit reserves, net of tax	$	(51,100)	$	(125,747)
Net realized and unrealized gains (losses) on derivative instruments - Life Funds Withheld Assets	$	(15,184)	$	(12,861)
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	$	(540,090)	$	(151,691)

Other

The Company has entered into short term catastrophe derivative swap agreements as the fixed rate payer that provide for a return to be paid to the Company based the occurrence of certain industry catastrophe events. The derivatives are recorded at fair value with changes in fair value recognized in earnings through Net realized and unrealized gains (losses) on derivative instruments.

(c) Derivative Instruments Designated as Fair Value Hedges

The Company may designate certain of its derivative instruments as fair value hedges or cash flow hedges, in which case it 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 uses foreign exchange contracts to hedge the fair value of certain fixed income securities. For the year ended December 31, 2016, there is no exposure to fair value hedges.

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.

Settlement of Fair Value Hedges

During the fourth quarter of 2010 and the third quarter of 2012, the Company settled five interest rate contracts designated as fair value hedges of certain of the Company's structured indemnity contracts. The gain on settlement of these contracts, which represented the effective portion of the hedging relationship, was recorded as an increase in the carrying value of the deposit liabilities and is being amortized through interest expense over the remaining term of the structured indemnity contracts.

During the second quarter of 2014, the Company negotiated the termination of one of these larger structured indemnity contracts. Upon the termination of the structured indemnity contract, the remaining fair value adjustment of the associated hedge in the amount of $47.0 million, which was being amortized as a reduction of interest expense over the remaining term of the contract, was reduced to zero and 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.

A summary of these fair value hedges that have been terminated and their cumulative impact on results up to the indicated years ended December 31 as well as the remaining balance of the 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 - Structured Indemnity Contracts December 31, 2016**	**2015**
Cumulative reduction to interest expense	113,292	103,742
Remaining balance	119,903	129,454
Weighted average years remaining to maturity	20.1	21.6

(d) 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 terminate such agreements early 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 as of December 31 for the years indicated were as follows:

Contingent Credit Features - Summary: *(U.S. dollars in thousands)*	**2016**	**2015**
Aggregate fair value of derivative agreements with downgrade provisions in a net liability position	$ 14,130	$ 5,827
Collateral posted to counterparty	$ 4,360	$ —

8. 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, 2016 and 2015 by level within the fair value hierarchy. For further information, see Note 2 (b), "Significant Accounting Policies – Fair Value Measurements":

December 31, 2016 *(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, 2016**
Assets					
Fixed maturities - AFS - Excluding Life Funds Withheld Assets					
U.S. Government	$ —	$ 3,705,770	$ 24,751	$ —	$ 3,730,521
Corporate - Financials	—	3,604,432	10,284	—	3,614,716
Corporate - Non Financials	—	6,310,677	9,801	—	6,320,478
RMBS - Agency	—	3,946,677	—	—	3,946,677
RMBS - Non-Agency	—	274,257	—	—	274,257
CMBS	—	664,197	99	—	664,296
CDO	—	377,490	1	—	377,491
Other asset-backed securities	—	874,767	1,130	—	875,897
U.S. States and political subdivisions of the States	—	2,478,112	—	—	2,478,112
Non-U.S. Government	—	5,028,531	—	—	5,028,531
Total fixed maturities - AFS - Excluding Life Funds Withheld Assets, at fair value	$ —	$ 27,264,910	$ 46,066	$ —	$ 27,310,976
Equity securities, at fair value	897,988	138,667	—	—	1,036,655
Short-term investments, at fair value (1)	—	625,194	—	—	625,194
Total investments AFS - Excluding Life Funds Withheld Assets	$ 897,988	$ 28,028,771	$ 46,066	$ —	$ 28,972,825
Fixed maturities - AFS - Life Funds Withheld Assets					
U.S. Government	—	10,577	—	—	10,577
Corporate - Financials	—	439,267	—	—	439,267
Corporate - Non Financials	—	1,015,341	—	—	1,015,341
RMBS - Agency	—	613	—	—	613
RMBS - Non-Agency	—	21,767	—	—	21,767
CMBS	—	94,240	—	—	94,240
Other asset-backed securities	—	101,560	—	—	101,560
Non-U.S. Government	—	624,677	—	—	624,677
Total fixed maturities - AFS - Life Funds Withheld Assets, at fair value	—	2,308,042	—	—	2,308,042
Total investments - AFS, at fair value	897,988	30,336,813	46,066	—	31,280,867
Fixed maturities - Trading - Life Funds Withheld Assets					
U.S. Government	—	14,708	—	—	14,708
Corporate - Financials	—	468,175	—	—	468,175
Corporate - Non Financials	—	643,030	—	—	643,030
RMBS - Agency	—	852	—	—	852
RMBS - Non-Agency	—	109	—	—	109
CMBS	—	5,526	—	—	5,526
Other asset-backed securities	—	39,446	—	—	39,446
U.S. States and political subdivisions of the States	—	224	—	—	224
Non-U.S. Government	—	444,944	—	—	444,944
Total fixed maturities - Trading - Life Funds Withheld Assets, at fair value	—	1,617,014	—	—	1,617,014
Short-term investments, at fair value	—	9,563	—	—	9,563
Total investments, Trading	—	1,626,577	—	—	1,626,577
Cash equivalents (2)	573,398	1,080,109	—	—	1,653,507

Cash equivalents - Life Funds Withheld Assets	—	72,798	—	—	72,798
Other investments (3)		493,874	205,512		699,386
Other assets (4)		87,655	19,841	(17,947)	89,549
Total assets accounted for at fair value	$ 1,471,386	$ 33,697,826	$ 271,419	$ (17,947)	$ 35,422,684
Liabilities					
Funds withheld on GreyCastle Life Retro Arrangements (net of future policy benefit reserves recoverable) (5)	$ —	$ 937,721	$ —	$ —	$ 937,721
Other liabilities (4)	—	44,865	19,839	(17,947)	46,757
Total liabilities accounted for at fair value	$ —	$ 982,586	$ 19,839	$ (17,947)	$ 984,478

December 31, 2015 *(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, 2015**
Assets					
Fixed maturities - Available for Sale ("AFS") - Excluding Life Funds Withheld Assets					
U.S. Government	$ —	$ 4,865,012	$ 45,063	$ —	$ 4,910,075
Corporate - Financials	—	3,481,003	53,685	—	3,534,688
Corporate - Non Financials	—	6,791,748	188	—	6,791,936
RMBS - Agency	—	3,615,932	3,077	—	3,619,009
RMBS - Non-Agency	—	328,539	—	—	328,539
CMBS	—	402,596	—	—	402,596
CDOs	—	3	32,407	—	32,410
Other asset-backed securities	—	1,148,652	17,857	—	1,166,509
U.S. States and political subdivisions of the States	—	2,632,070	—	—	2,632,070
Non-U.S. Government	—	5,250,025	—	—	5,250,025
Total fixed maturities - AFS - Excluding Funds Withheld Assets, at fair value	$ —	$ 28,515,580	$ 152,277	$ —	$ 28,667,857
Equity securities, at fair value	528,581	350,338	—	—	878,919
Short-term investments, at fair value (1)	—	537,583	—	—	537,583
Total investments - AFS Excluding Funds Withheld Assets	$ 528,581	$ 29,403,501	$ 152,277	$ —	$ 30,084,359
Fixed maturities - Life Funds Withheld Assets					
U.S. Government and Government - Related/Supported	—	12,742	—	—	12,742
Corporate - Financials	—	598,236	—	—	598,236
Corporate - Non Financials	—	1,308,628	—	—	1,308,628
RMBS - Agency	—	752	—	—	752
RMBS - Non-Agency	—	26,953	—	—	26,953
CMBS	—	122,482	—	—	122,482
Other asset-backed securities	—	149,795	—	—	149,795
Non-U.S. Government	—	933,516	—	—	933,516
Total fixed maturities - AFS - Life Funds Withheld Assets, at fair value	—	3,153,104	—	—	3,153,104
Total investments - AFS, at fair value	528,581	32,556,605	152,277	—	33,237,463
Fixed maturities - Trading - Life Funds Withheld Assets					
U.S. Government	—	4,990	—	—	4,990
Corporate - Financials	—	335,956	—	—	335,956
Corporate - Non Financials	—	493,621	—	—	493,621
RMBS - Agency	—	368	—	—	368
CMBS	—	4,803	—	—	4,803
Other asset-backed securities	—	25,700	—	—	25,700
Non-U.S. Government	—	370,261	—	—	370,261
Total fixed maturities - Trading - Life Funds Withheld Assets, at fair value	—	1,235,699	—	—	1,235,699
Short-term investments, at fair value	—	60,330	—	—	60,330
Total investments, Trading	—	1,296,029	—	—	1,296,029
Cash Equivalents (2)	434,794	724,844	—	—	1,159,638
Cash equivalents - Life Funds Withheld Assets (2)	517	100,757	—	—	101,274
Other Investments (3)	—	490,058	282,666	—	772,724
Other assets (4)	—	69,914	19,400	(3,087)	86,227
Total assets accounted for at fair value	$ 963,892	$ 35,238,207	$ 454,343	$ (3,087)	$ 36,653,355
Liabilities					

Funds withheld on GreyCastle life retrocession arrangements (net of future policy benefit reserves recoverable) (5)	$ —	$ 463,915	$ —	$ —	$ 463,915
Financial instruments sold, but not yet purchased (6)	347	—	—	—	347
Other liabilities (4)	—	16,304	29,191	(3,087)	42,408
Total liabilities accounted for at fair value	$ 347	$ 480,219	$ 29,191	$ (3,087)	$ 506,670

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

(2) 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.

(3) Other Investments balance excludes $322.9 million and $518.1 million as of December 31, 2016 and December 31, 2015, respectively, measured using Net Asset Value, based on new accounting guidance. In addition, the Other investments balance excludes a certain payment obligation. These investments, which totaled $142.3 million at December 31, 2016 and $141.3 million at December 31, 2015, are carried at amortized cost. For further information, see Note 6, "Other Investments."

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

(5) 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 GreyCastle Life Retro Arrangements described in Note 4(a), "Investments", accrue to the benefit of GCLR.

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

(b) Level 2 Asset Valuations

U.S. Government, Corporate - Financials, Corporate - Non Financials and Non-U.S Government.

Transaction activity inputs utilized in the valuation of fair value hierarchy Level 2 securities within these sub-categories include actual trades, dealer posts, results of bids-wanted, institutional secondary offerings, primary market offerings and Trade Reporting and Compliance Engine ("TRACE") trade feeds. As part of the evaluation process, transaction activity is compared to prior evaluations and necessary adjustments are made accordingly. Market-color inputs include actively quoted benchmark issues, buy-side/evaluator dialogue, sell-side/evaluator dialogue and credit derivative indices.

RMBS - Agency, RMBS - Non-Agency, CMBS, CDO and Other asset-backed securities

As part of the fair valuation process, Level 2 securities in these sub-categories are analyzed by collateral type, deal structure, deal performance and vintage. Market inputs into the valuation process for each sub-category include reported or observed trades, results of bids-wanted, buy-side/sell-side evaluator dialogue, dealer offering and market research reports. Cash flow inputs into the evaluation process include conditional prepayment rates, conditional decay rates, delinquency and loss severity rates. This assumptive data is reviewed and updated using third party reported information to reflect current market convention.

U.S. States and political subdivisions of the States

Transaction activity inputs utilized in the valuation of fair value hierarchy Level 2 securities within this sub-category include client and broker trades, dealer posts, results of bids-wanted, institutional secondary offerings, primary market offerings, and Municipal Securities Rulemaking trade feeds. As part of the evaluation process, transaction activity is compared to prior evaluations and necessary adjustments are made accordingly. Market-color inputs include bids, offerings, two-sided markets, buy-side/evaluator dialogue and sell-side/evaluator dialogue. Credit information inputs include issuer financial statements, default and material event notices, developer reports and liquidation and restructuring analysis.

Equity securities and other investments

Other investment securities generally include investments in thinly traded equity funds and hedge funds. Fair value is determined based upon the most recent net asset values ("NAV') received from the fund administrators, the nature of the underlying investments in the funds and the frequency of subscriptions or redemptions as dictated by the fund's governing documents.

Other assets and other liabilities

Other assets and other liabilities primarily include over-the-counter ("OTC") derivatives, which 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 independent 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.

(c) 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, 2016 and 2015 for all financial assets and liabilities measured at fair value using significant unobservable inputs (Level 3) at December 31, 2016 and 2015, 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, 2016 and 2015, respectively. Gains and losses for assets and liabilities classified within Level 3 in the table below may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). Further, it should be noted that the following tables do not take into consideration the effect of offsetting Level 1 and 2 financial instruments entered into by the Company that are either economically hedged by certain exposures to the Level 3 positions or that hedge the exposures in Level 3 positions.

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

Fixed maturities and short-term investments

The Company's Level 3 assets consist primarily of U.S. Government and Government-Related/Supported, Corporates and 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 securities 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 these 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 investments (including funds) and certain derivative positions as described below.

Other investments

Included within the other investments component of the Company's Level 3 valuations are private investments (including funds) and hedge funds 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 hedge funds included in other investments utilize strategies including arbitrage, directional, event driven and multi-style. The 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 6, "Other Investments," for further details.

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.

Level 3 Assets and Liabilities - Year End December 31, 2016

(U.S. dollars in thousands)	**Balance, beginning of period**	**Realized gains (losses)**	**Movement in unrealized gains (losses)**	**Purchases and Issuances**	**Sales**	**Settlements**	**Net transfers into out of) Level 3 (2)**	**Balance, end of period**	**Movement in total gains (losses) relating to investments still held**
U.S. Government	45,063	264	687	—	(19,101)	(2,162)	—	24,751	886
Corporate - Financials	53,685	(2,991)	10	285	(30,420)	—	(10,285)	10,284	31
Corporate - Non-Financials	188	—	13	1,747	—	(6)	7,859	9,801	14
RMBS - Agency	3,077	(3)	7	—	—	(229)	(2,852)	—	—
CMBS	—	—	(3)	—	—	—	102	99	(3)
CDO	32,408	189	6,870	—	—	(23,030)	(16,436)	1	6,152
Other asset-backed securities	17,857	479	(2,113)	1,072	—	(14,190)	(1,975)	1,130	(1,673)
Other investments	282,666	17,814	(10,496)	47,998	(27,676)	(43,259)	(61,535)	205,512	2,454
Derivative Contracts - Net	(9,791)	—	9,793	—	—	—	—	2	10
Total	425,153	15,752	4,768	51,102	(77,197)	(82,876)	(85,122)	251,580	7,871

Level 3 Assets and Liabilities - Year End December 31, 2015

(U.S. dollars in thousands)	Balance, beginning of period	Realized gains (losses)	Movement in unrealized gains (losses)	Purchases and Issuances	Sales	Settlements	Net transfers into out of) Level 3 (2)	Balance, end of period	Movement in total gains (losses) relating to investments still held
U.S. Government	45,063,000	(112,000)	743,000	—	—	(2,044,000)	—	43,650	630,000
Corporate - Financials	53,685,000	(2,991,000)	10,000	208,000	(30,420,000)	—	(10,285,000)	10,207	31,000
Corporate - Non-Financials	188,000	—	16,000	1,747,000	—	(6,000)	(1,866,000)	79	17,000
RMBS - Agency	3,077,000	(3,000)	7,000	—	—	(229,000)	(2,852,000)	—	—
CMBS	—	—	(1,000)	—	—	—	102,000	101	(1,000)
CDO	32,408,000	189,000	6,871,000	124,843,000	—	(23,030,000)	—	141,281	6,152,000
Other asset-backed securities	17,857,000	515,000	(2,149,000)	1,072,000	—	(14,190,000)	(1,975,000)	1,130	(1,673,000)
Other investments	264,415,000	14,588,000	(8,519,000)	34,450,000	(12,000,000)	(34,334,000)	(45,846,000)	212,754	5,276,000
Derivative Contracts - Net	(9,791,000)	—	9,834,000	—	—	—	—	43	10,000
Total	406,902	12,186	6,812	162,320	(42,420)	(73,833)	(62,722)	409,245	10,442

(1) Includes assets acquired as result of the transaction described in Note 3(f), "Acquisitions, Disposals and Contribution from Parent - Contribution of Catlin"

(2) Net transfers include both movement in and movement out of Level 3. Corporate - Non-Financials securities for 2016 includes $9.7 million of incoming transfers partially offset by $1.9 million outgoing transfers. Other asset-backed securities for 2016 includes $5.0 million of outgoing transfers partially offset by $3.0 million of incoming transfers, and 2015 includes $34.1 million of outgoing transfers partially offset by $13.3 million of incoming transfers. Other investments for 2016 includes $77.0 million of outgoing transfers partially offset by $15.5 million of incoming transfers. RMBS-Agency for 2015 includes $3.1 million of incoming transfers partially offset by $2.9 million of outgoing transfers.

(d) 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, 2016 and 2015. All of these fair value estimates are considered Level 2 fair value measurements.

	2016		2015	
(U.S. dollars in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets - Other investments, structured transactions	142,271	153,173	141,329	154,065
Deposit liabilities	$ 1,116,233	$ 1,337,407	$ 1,168,376	$ 1,436,210
Financial Liabilities	$ 1,116,233	$ 1,337,407	$ 1,168,376	$ 1,436,210

The Company historically participated in structured transactions. XLB's remaining structured transaction is an investment in a payment obligation with an insurance company. This transaction is carried at amortized cost. The fair value of this investment held by the Company is determined through use of an internal model utilizing benchmark yields, issuer spreads 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 50 basis points and 26.5 basis points at December 31, 2016 and 2015, 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.

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, 2016 and 2015:

(U.S. dollars in thousands)	Goodwill	Intangible assets with an indefinite life	Intangible assets with a definite life	Total
Balance at December 31, 2013	$ 260,211	$ 15,366	$ —	$ 275,577
Amortization	—	—	(1,850)	(1,850)
Foreign Currency Translation	(5,747)	—	—	(5,747)
Balance at December 31, 2014	$ 279,623	$ 15,366	$ 16,650	$ 311,639
Additions	807,381	673,000	315,000	1,795,381
Amortization	—	—	(15,517)	(15,517)
Foreign Currency Translation	(9,686)	(5,507)	(2,356)	(17,549)
Balance at December 31, 2015	$ 1,077,318	$ 682,859	$ 313,777	$ 2,073,954
Additions	14,084	8,000	28,948	51,032
Amortization	—	—	(22,422)	(22,422)
Foreign Currency Translation	(14,190)	(8,080)	(12,953)	(35,223)
Balance at December 31, 2016	$ 1,077,212	$ 682,779	$ 307,350	$ 2,067,341

Goodwill

At December 31, 2016 and 2015, the Company had goodwill of $1,077.2 million and $1,077.3 million, respectively.

In the first quarter of 2016, as a result of the transaction described in Note 3(d), "Acquisitions, Disposals and Contribution from Parent - Allied Acquisition," the Company recognized additional goodwill of approximately $14.1 million. The transaction was accounted for using the acquisition method under which the Company recorded the identifiable assets acquired, including indefinite-lived and definite-lived intangible assets, and liabilities assumed, at their Acquisition Date fair values, and recorded the excess of consideration transferred over the net assets acquired as goodwill.

In the third quarter of 2015, as a result of the transaction described in Note 3(e), "Acquisitions, Disposals and Contribution from Parent - New Energy Risk," the Company recognized additional goodwill of approximately $13.4 million. The transaction was accounted for using the acquisition method under which the Company recorded the identifiable assets acquired and liabilities assumed at their acquisition date fair values, and recorded as goodwill the excess of the sum of a) over b) - in which a) represents the aggregate of: i) the consideration transferred, ii) the fair value of non-controlling interest in the acquiree, and iii) the acquisition-date fair value of the Company's previously held equity interest in the acquiree; and b) represents the net assets acquired in the transaction.

In the second quarter of 2015, as a result of the transaction described in Note 3(f), "Acquisitions, Disposals and Contribution from Parent - Catlin Acquisition," the Company recognized additional goodwill and other intangible assets. The transaction was accounted for using the acquisition method under which the Company recorded the identifiable assets acquired, including indefinite-lived and definite-lived intangible assets, and liabilities assumed, at their Acquisition Date fair values, and recorded the excess of consideration transferred over the net assets acquired as goodwill.

The estimated fair values of the reporting units' carried goodwill exceeded their estimated net book values at December 31, 2016, and therefore no impairments were recorded during 2016. At December 31, 2016 and 2015, the ending goodwill balance is comprised of gross goodwill of $1.6 billion and $1.5 billion, respectively, offset by accumulated impairment charges of $0.4 billion at December 31, 2016 and 2015. For further details regarding the Company's impairment process, see Note 2(k), "Significant Accounting Policies - Goodwill, Intangibles and Other Long-Lived Assets."

Other Intangible Assets

At December 31, 2016 and 2015, the ending definite-lived intangible assets balance is comprised of $347.2 million and $333.5 million, respectively, of gross intangible assets, offset by accumulated amortization of $39.8 million and $17.4 million, respectively. Future amortization expenses are expected to be as follows:

Year Ended December 31, (U.S. dollars in thousands)		
2017	$	21,957
2018		20,291
2019		20,041
2020		19,957
2021		19,957
2021-2036		205,147
Total expected amortization expenses	$	307,350

In connection with the transaction described in Note 3(c), "Acquisitions, Disposals and Contribution from Parent - Brooklyn Acquisition," the Company acquired definite-lived intangible assets of $22.9 million, which will be amortized over their estimated useful lives.

In connection with the transaction described in Note 3(d), "Acquisitions, Disposals and Contribution from Parent - Allied Acquisition," the Company acquired indefinite-lived intangible assets of $8.0 million and definite-lived intangible assets of $6.0 million, which will be amortized over their estimated useful lives.

The following table summarizes the intangible assets and their related useful lives recorded in connection with the Catlin Acquisition, as described in Note 3(f), "Acquisitions, Disposals and Contribution from Parent - Catlin Acquisition" as of the Acquisition Date:

(U.S. dollars in thousands)	**Amount**		**Estimated Useful Life**
Lloyd's - Syndicate capacity	$	660,000	Indefinite
Insurance licenses		13,000	Indefinite
Total identified indefinite life intangible assets	$	673,000	
Lloyd's - Managing agent contracts		15,000	15 years
Distribution network		290,000	20 years
Trademarks / Trade names		10,000	2 years
Total identified definite life intangible assets	$	315,000	
Total identified intangible assets	$	988,000	

An explanation of the intangible assets is as follows:

- Lloyd's - Syndicate capacity - This asset represents the syndicate capacity of two Lloyd's syndicates allowing the Company to write insurance business in the Lloyd's market globally and realize the profits from that business. The value of the syndicate capacity includes the reputational value of participation in the Lloyd's market, and the value of trade names and licenses associated with syndicate ownership. The syndicate capacity was valued using the Multi-Period Excess Earnings Method, an application of the Income Approach. Critical inputs into the valuation model used for this intangible included estimates of the future growth of syndicate authorized premium income limits (ie, capacity) and expected return on that capacity and discounting based on a weighted average cost of capital.
- Insurance licenses - The insurance licenses owned by Catlin at the time of the Catlin Acquisition allow the Company to write insurance business in the United States. The insurance licenses were valued using the Market Approach. Critical inputs utilized in the valuation of this intangible were the number of licenses obtained by US state and an aggregate market value per license based on similar past market transactions.
- Lloyd's - Managing agent contracts - As the managing agent for certain Lloyd's syndicates, the Company has contracts with the syndicate members to provide underwriting services for which it earns managing agent fees and a profit commission. The managing agent contracts were based on the Income Approach. Critical inputs utilized in the

valuation of this intangible included expected contract fee and profit commission rates applied to future managed syndicate capacity, contract renewal probabilities over a time horizon and discounting based on a weighted average cost of capital.

- Distribution network - This asset represents a network of hundreds of retail and wholesale brokers worldwide, including specialty and regional brokerages, which allow the Company to form closer relationships with clients and aids business retention. The distribution network was valued using the Multi-Period Excess Earnings Method, an application of the Income Approach. Critical inputs into the valuation model used for this intangible included projections of underwriting profitability and investment returns, supporting capital charges, and discounting based on a weighted average cost of capital.
- Trademarks / Trade names - The Catlin trademarks / trade names are utilized to attract customers for the turnkey solutions provided under the Company's managing agent contracts and to generate premiums from the non-Lloyd's platform underwriting products for which the Catlin brand is known. The trademarks and trade names were based on the Relief-from-Royalty Method, an application of the Income Approach. Critical inputs used in the valuation of this intangible included industry-based market royalty rates on premium revenues to be generated through use of the trademarks/trade names, expected useful life over which the company expects to co-brand under the trademarks/trade names and discounting based on a weighted average cost of capital.

10. Losses and Loss Expenses

The following table represents a reconciliation of the beginning and ending balances of unpaid losses and loss expenses, including an analysis of the Company’s paid and unpaid losses and loss expenses incurred for the years indicated:

(U.S. dollars in thousands)	2016	2015
Unpaid losses and loss expenses at the beginning of the year	$ 25,439,744	$ 19,353,243
Unpaid losses and loss expenses recoverable (1)	5,248,905	3,411,528
Net unpaid losses and loss expenses at the beginning of the year	$ 20,190,839	$ 15,941,715
Acquired reserves	101,315	5,439,876
Increase (decrease) in net losses and loss expenses incurred in respect of losses occurring in:		
Current year	6,374,377	5,072,830
Prior year	(301,542)	(306,630)
Total net incurred losses and loss expenses	$ 6,072,835	$ 4,766,200
Exchange rate effects	(571,198)	(582,300)
Less net losses and loss expenses paid in respect of losses occurring in:		
Current year	1,444,251	1,047,277
Prior year	3,890,269	4,327,375
Total net paid losses	$ 5,334,520	$ 5,374,652
Net unpaid losses and loss expenses at the end of the year	20,459,271	20,190,839
Unpaid losses and loss expenses recoverable (1)	5,480,300	5,248,905
Unpaid losses and loss expenses at the end of the year	$ 25,939,571	$ 25,439,744

(1) Property and Casualty business only. See note 12, "Reinsurance", for further information.

(a) Liability for Unpaid Losses and Loss Expenses

As the Company earns premiums for the underwriting risks it assumes, an estimate of the expected ultimate losses related to the premium is established. 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 P&C claims can be complex and is subject to considerable variability, as it requires the use of judgment to make informed estimates. These estimates 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:

- Case reserves - reserves for reported losses and loss expenses that have not yet been settled; and
- 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 the Company's P&C 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 the Company. The method of establishing case reserves for reported claims differs among the Company's operations.

With respect to the Insurance operations, the Company is notified of insured losses and records 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 reinsurance operations, case reserves for reported claims are generally established based on reports received from ceding companies. Additional case reserves may be established by the Company to reflect the estimated ultimate cost of a loss. For reinsurers, uncertainty in the reserving process stems, in part, from timing lags inherent in reporting by the claimant to the primary insurer, and subsequently by the primary insurer to the reinsurer. As a predominantly broker market reinsurer for both excess-of-loss and proportional contracts, the Company is potentially subject to an additional timing lag in the receipt of information as the primary insurer reports to the broker who in turn reports to the Company.

Since the Company relies on information regarding paid losses, case reserves and IBNR provided by ceding companies to estimate its liability for unpaid losses and loss adjustment expenses ("LAE"), certain procedures are maintained in order to help determine the completeness and accuracy of such information. Periodically, management assesses the reporting activities of its ceding companies on the basis of qualitative and quantitative criteria. In addition to conferring with ceding companies or brokers on claims matters, XLB's claims personnel conduct periodic audits of specific claims and the overall claims procedures of ceding companies at their offices. The Company relies on its 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, the Company also utilizes information on the pattern of ceding company loss reporting and loss settlements from previous catastrophic events in order to estimate the 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. The Company actively requests loss updates from cedants periodically while there is still considerable uncertainty for an event, often for the first year following an event. The Company's 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 in some cases fully exhausted by the loss reserve estimates. Second, as a reinsurer, the Company has access to information from a broad cross section of the insurance industry. The Company utilizes such information in order to perform consistency checks on the data provided by ceding companies and is able to identify trends in loss reporting and settlement activity and incorporate such information in the estimate of IBNR reserves. Finally, the Company also supplements 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, management believes that quantitative techniques to estimate these amounts are enhanced by professional and managerial judgment. Management reviews the IBNR estimates produced by its actuarial department and determines its best estimate of the liabilities to record in the financial statements. The Company considers this single point estimate to be the mean expected outcome.

IBNR reserves are estimated by the Company's 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 the estimated exposure to an industry loss and may include the use of catastrophe modeling software. On a quarterly basis, IBNR reserves are reviewed by the Company's 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.

The Company's 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 insurance and reinsurance business unit segregates 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"). Within the Insurance Operations, reviews are on an accident year, underwriting year, or report year basis depending on the nature of the business. The Reinsurance operations is reviewed on an underwriting year basis. In each case, management believes 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 greater numbers 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 class of business for each year of loss experience. The Company's 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 the 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, 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 generally fall within these ranges. 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 the Company's 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 the Company underwrites, 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 and workers' compensation, where information emerges relatively slowly over time.

The three types of property and casualty reserve exposure with the longest tails included in the Company's portfolio are:

- high layer excess casualty insurance
- casualty reinsurance and
- discontinued asbestos and run-off environmental insurance and reinsurance liabilities

Certain aspects of casualty operations complicate the actuarial process for establishing reserves. Certain casualty business written by insurance operations is high layer excess casualty business, meaning that liability attaches after large deductibles, including self-insurance or insurance from other sources. The Company began 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 for this type of business was largely based upon judgment and the Company's 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, there is 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 reinsurance operations.

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 being acquired by the Company; from business of Winterthur purchased by the Company from AXA Insurance in 2001; from a loss portfolio transfer in 2006; and acquired as a result of the Contribution of Catlin. At December 31, 2016, total gross unpaid losses and loss expenses with respect to these businesses represented less than 1% of unpaid losses and loss expenses of the Company.

Unpaid losses and loss expenses prior to reinsurance recoveries for the indicated years ended December 31 comprise the following:

(U.S. dollars in thousands)	2016	2015
Reserve for reported losses and loss expenses	$ 10,343,481	$ 10,293,448
Reserve for losses incurred but not reported	15,596,090	15,146,296
Unpaid losses and loss expenses	$ 25,939,571	$ 25,439,744

Claims Development

Management has determined that the appropriate level of disaggregation for the incurred and paid claims development information best falls into six categories within its two operations. This level of disaggregation is consistent with the Company's historical disclosure levels and provides groupings of the Company's insurance and reinsurance businesses of a credible size and with similar claim development characteristics, particularly payment patterns. It should be noted that when estimating IBNR reserves, the Company's Insurance and Reinsurance operations segregate business into exposure classes and over 250 classes are reviewed in total. Furthermore, large losses and catastrophe events are evaluated separately.

As noted previously, reserve reviews are carried out on an accident year, underwriting year or report year basis depending on the nature of the business. Typically, reserve reviews are carried out gross of reinsurance with ceded reinsurance recoveries evaluated separately to arrive at net reserves. However, in accordance with accounting guidance, the disclosures presented herein are accident year triangles, presented net of reinsurance recoverables. Underwriting year triangles are converted to an accident year basis using assumptions consistent with the underlying premium earning profiles and considering large losses in their respective accident year. Similarly, ceded reinsurance recoverables are allocated to accident year and class of business in order to present net accident year triangles. While we have compiled the triangles on a best efforts basis, the allocation bases required to develop historical net accident year triangles should be viewed as approximations only.

Within the Insurance operations, there are four business groups: Professional; Casualty and other; Energy, Property and Construction ("EPC"); and Specialty. Within the Reinsurance operations, all major products fall within two categories: Property and Other Short-Tail Lines, and Casualty and Other Long-Tail Lines. The Company has also provided aggregate triangles for the total Company and the Insurance and Reinsurance operations to reflect the levels at which the Company manages its business.

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 of the Company. There is no assurance that conditions and trends that have affected the development of liabilities in the past will continue. Furthermore, changes in business mix over time, including discontinuation of certain classes of business and growth in others, can impact development patterns. Accordingly, it may not be appropriate to extrapolate future redundancies or deficiencies based on the Company's historical results.

As discussed in further detail in part (c), 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 development in the tables included herein is presented on a gross of discount basis, reflecting the undiscounted case reserves established using a tabular reserving methodology and the undiscounted IBNR. The amount of discount is then determined for both Case and IBNR reserves and booked accordingly. The amount of discount is included in the reconciliation of the reserves to the Consolidated Balance Sheet.

As a result of the Contribution of Catlin in 2015 as noted in Note 3(f), "Acquisitions, Disposals and Contribution from Parent - Contribution of Catlin, the Company acquired approximately $5.4 billion of unpaid claims liability, net of reinsurance, as well as $101.3 million of unpaid claims liability, net of reinsurance due to the Allied Acquisition in 2016 as noted in Note 3 (d), "Acquisitions, Disposals and Contribution from Parent - Allied Acquisition." For purposes of this disclosure, the Company has applied the retrospective method for these acquired reserves, including the combined companies' incurred and paid claim development histories throughout the tables. It should be noted that historical reserves for the acquired businesses were established by the respective companies using methods, assumptions and procedures then in effect which may differ from the Company's current reserving bases. Accordingly, it may not be appropriate to extrapolate future redundancies or deficiencies based on the aggregated historical results shown in the triangles.

The Company has also revalued all historical data using exchange rates at December 31, 2016 in order to mitigate the effect of foreign exchange on the development throughout the triangles. Due to currency mix changes from one year end to the next, revaluation of incurred losses will result in different year-on-year movements within the triangles with each annual presentation. This approach for handling foreign exchange movements within the triangles differs somewhat from the underlying calculation of prior year development in the Company's financial statements due the inclusion of historical loss payments as well as reserves and the level of granularity used in the calculation. The differences have been deemed not to be material.

The number of reported claims is provided for the Insurance operations on a per claim basis and excludes those claims which closed with no payment. It should be noted that certain claims may eventually close with no payment in the future at which time the claims will be excluded on a prospective basis. The number of reported claims can vary over time due to changes in mix of business and policy terms and conditions. For the Reinsurance operations, the number of reported claims is not provided due to the common industry practice of cedants reporting loss information for proportional treaties on a bulk basis without comprehensive claim details. Therefore, it is impractical to provide meaningful claim count detail for the Company's Reinsurance business.

The Average Annual Percentage Payout of Incurred Losses for each age has been derived using a weighted average of all cumulative paid amounts as a percentage of 2016 incurred losses and allocated loss expenses. The average annual percentage payout can change over time due to changes in business mix, policy terms and conditions as well as ceded reinsurance arrangements.

As previously noted, the process of establishing reserves for unpaid P&C claims can be complex and is subject to considerable variability, as it requires the use of judgment to make informed estimates. These estimates are based on numerous factors, and may be revised as additional experience and data become available, as new or improved methodologies are developed or as current laws change. In addition, there is no assurance that conditions and trends that have affected the development of liabilities in the past will continue. This variability may result in either favorable or adverse development in the Incurred Loss and Allocated Loss Expense triangles provided by the Company. The variability experienced to date has been in line with management's expectations given the underlying business written by the Company. We have provided additional commentary for the individual categories below:

For the Insurance operations in total, while individual accident years have both favorable and adverse incremental development across the triangle, accident years 2007 to 2013 have all developed favorably since the first evaluation. The 2014 and 2015 accident years reflect modest adverse development due primarily to large loss activity in several lines that the Company does not view as a trend. In addition, the Company notes that these accident years are still relatively immature.

For the Insurance EPC category, individual accident years have generally developed favorably as updated loss estimates were received and volatility in the loss estimates decreased. The 2014 accident year experienced adverse development from the 2014 evaluation to the 2015 evaluation due to development on a large fire loss which occurred in late December 2014. The 2014 accident year then developed favorably from the 2015 evaluation to the 2016 evaluation. The 2015 accident year experienced adverse development from the first evaluation in 2015 to the second evaluation in 2016 due to movements on several claims in the international property and construction businesses.

For the Insurance Specialty category, individual accident years have generally developed favorably as updated loss estimates were received and volatility in the loss estimates decreased. This category includes a range of businesses with both short-tail and medium-tail exposures. Typically, development in the second year relates to short-tail lines with development on medium-tail business being reflected at subsequent evaluations.

For the Insurance Professional category, individual accident years have both favorable and adverse development across the triangle. These developments relate to the complexity associated with claims in this class of business. In 2008, the Company strengthened its reserves for the 2007 report/accident year due to the developing subprime-credit crisis. Due to the claims-made nature of the underlying Professional policies, the subprime-credit crisis impacted the 2008 to 2012 report years and reserves were re-allocated from the 2007 report year to these later years as claims developed. The cumulative impact of the credit crisis and developing loss trends were more severe than originally expected for these years. The 2014 and 2015 report years have experienced modest adverse development due to large loss activity in the international financial lines management liability book and the discontinued design subcontractors default portfolio.

For the Insurance Casualty category, individual accident years have both favorable and adverse development across the triangle. These developments relate to the complexity associated with claims in this class of business and the high level of attachment of the Company's excess policies. The 2010 accident year experienced more adverse development than other accident years due to development on the Deepwater Horizon event. The 2013 to 2015 accident years reflect modest adverse development due to large loss activity relating to the excess casualty portfolio and strengthening of the excess and surplus portfolio and the newly acquired Allied business.

For the Reinsurance operations in total, while individual accident years have both favorable and adverse incremental development across the triangle, all accident years except for the 2010 accident year developed favorably since the first evaluation. The adverse development since the first evaluation for the 2010 accident year was very modest.

For the Reinsurance Property and Other Short Tail category, individual accident years have generally developed favorably as updated loss estimates were received and volatility in the loss estimates decreased. The two outliers were the 2010 and 2012 accident years where there was modest adverse development related to large loss events from the business acquired in the Contribution of Catlin. Specifically, the 2010 adverse development relates to the Buncefield Explosion and the New Zealand Darfield Earthquake and the 2012 development relates to Costa Concordia and Superstorm Sandy. The favorable development on the 2011 year relates in part to reductions on the Japan Earthquake and Tsunami event also within the business acquired in the Contribution of Catlin. As noted earlier, the historical reserves for the acquired businesses were established by the respective companies using methods, assumptions and procedures then in effect which may differ from the Company's current reserving bases.

For the Reinsurance Casualty and Other Long Tail category, the earlier years had modest favorable development and the later years had modest adverse development. The adverse development for the later accident years relates to changes in reserving methodology for certain long tailed lines of business that occurred in calendar years 2012 and 2015. In 2012, the Company changed its methodology to hold an explicit discount on loss reserves for U.K. bodily injury claims expected to settle via Periodical Payment Orders ("PPOs"). As these claims became more prevalent and costly, reserves were strengthened on an undiscounted basis. However, with the implementation of discounting, there was a minimal change in the loss reserves, net of the discount. Similarly, a significant portion of the increase in the Incurred Losses and Allocated Loss Expense, Net of Reinsurance for the 2015 calendar year is due to a change in the methodology used to determine the undiscounted ultimate losses for the reinsurance workers' compensation liabilities acquired in the Contribution of Catlin resulting in a large increase in the undiscounted losses but an insignificant change in the discounted losses.

Total Property and Casualty

(in thousands, except for number of claims)

Incurred Losses and Allocated Loss Expenses, Net of Reinsurance

	For the Years Ended December 31,										As of Dec 31, 2016	
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited			
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	IBNR (1)	Number of Claims
2007	$4,632,657	$4,806,850	$4,718,961	$4,684,540	$4,689,256	$4,569,019	$4,541,978	$4,519,599	$4,432,150	$ 4,390,981	$ 246,827	N/A
2008		5,504,796	5,575,015	5,503,422	5,524,325	5,479,907	5,449,364	5,417,072	5,357,648	5,322,204	307,738	N/A
2009			4,622,547	4,627,569	4,542,408	4,556,902	4,550,362	4,550,542	4,422,167	4,392,904	317,583	N/A
2010				4,983,044	5,111,634	5,002,061	5,026,101	4,974,782	4,957,474	4,981,939	464,306	N/A
2011					6,236,775	6,187,474	6,111,779	5,980,635	6,116,046	6,083,796	558,008	N/A
2012						5,697,958	5,660,616	5,640,576	5,754,387	5,663,926	715,827	N/A
2013							5,558,316	5,554,791	5,523,695	5,426,144	1,082,491	N/A
2014								5,183,056	5,369,393	5,397,264	1,396,883	N/A
2015									5,354,494	5,498,206	1,962,006	N/A
2016										6,005,506	3,425,518	N/A
										$53,162,870	Total	

Cumulative Paid Losses and Allocated Loss Expenses, Net of Reinsurance

	For the Years Ended December 31,									
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
2007	$ 521,083	$1,289,961	$2,055,288	$2,587,918	$3,126,834	$3,397,370	$3,612,934	$3,744,872	$3,822,207	$ 3,894,280
2008		788,760	1,994,235	2,857,474	3,446,415	3,947,203	4,240,640	4,450,875	4,582,409	4,700,567
2009			638,179	1,530,295	2,192,791	2,655,163	3,117,922	3,366,917	3,551,474	3,663,224
2010				840,030	1,855,407	2,645,868	3,144,278	3,521,163	3,851,827	4,084,244
2011					1,246,596	2,872,319	3,664,970	4,242,053	4,737,827	5,021,000
2012						952,158	2,256,973	3,149,842	3,802,042	4,199,766
2013							976,023	2,194,912	3,049,907	3,614,076
2014								957,525	2,250,446	3,090,343
2015									970,277	2,152,569
2016										1,192,137
										$35,612,206
All outstanding liabilities prior to 2007, net of reinsurance										2,501,779
Liabilities for unpaid losses and loss expenses, net of reinsurance										$20,052,443

Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
17%	22%	15%	10%	9%	6%	3%	3%	3%	1%

(1) Total IBNR Liabilities Plus Expected Development on Reported Claims

Insurance Operations

(in thousands, except for number of claims)

Incurred Losses and Allocated Loss Expenses, Net of Reinsurance

	For the Years Ended December 31,										As of Dec 31, 2016	
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited			
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	IBNR (1)	Number of Claims
2007	$ 3,258,668	$ 3,490,955	$ 3,426,696	$ 3,431,600	$ 3,442,331	$ 3,329,848	$ 3,317,676	$ 3,318,423	$ 3,274,775	$ 3,246,355	$ 158,351	45,542
2008		3,891,682	3,969,259	3,935,499	3,974,071	3,918,450	3,889,538	3,857,758	3,822,133	3,786,671	186,723	54,952
2009			3,472,222	3,499,124	3,458,320	3,480,715	3,483,027	3,500,575	3,369,614	3,346,817	190,193	54,896
2010				3,702,458	3,809,102	3,699,234	3,735,809	3,688,045	3,661,919	3,697,761	313,815	61,416
2011					4,014,389	3,986,420	4,009,166	3,921,559	4,026,511	4,001,271	379,349	65,437
2012						3,870,871	3,799,876	3,800,046	3,921,415	3,851,259	468,002	70,919
2013							3,942,360	4,003,359	3,978,956	3,924,048	802,611	78,018
2014								3,748,154	3,917,364	3,978,436	1,052,314	87,491
2015									3,849,731	4,039,203	1,418,476	94,229
2016										4,160,269	2,358,172	65,684
										$38,032,090	Total	

Cumulative Paid Losses and Allocated Loss Expenses, Net of Reinsurance

	For the Years Ended December 31,									
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
2007	$ 367,171	$ 930,428	$ 1,462,857	$ 1,884,318	$ 2,333,047	$ 2,549,256	$ 2,715,861	$ 2,822,610	$ 2,896,977	$ 2,943,144
2008		461,606	1,339,577	1,973,577	2,427,033	2,843,188	3,069,812	3,234,869	3,337,607	3,415,212
2009			462,090	1,140,796	1,666,673	2,043,196	2,432,021	2,634,783	2,787,167	2,865,558
2010				607,658	1,377,513	1,978,027	2,370,062	2,685,015	2,914,856	3,072,546
2011					649,690	1,617,155	2,216,640	2,653,619	3,062,399	3,290,213
2012						634,043	1,471,761	2,079,400	2,578,639	2,886,674
2013							657,753	1,509,232	2,141,332	2,597,422
2014								669,745	1,597,123	2,263,643
2015									691,253	1,563,019
2016										861,429
										$25,758,860
All outstanding liabilities prior to 2007, net of reinsurance										1,069,908
Liabilities for unpaid losses and loss expenses, net of reinsurance										13,343,138

Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
16%	21%	16%	11%	10%	6%	4%	3%	3%	1%

(1) Total IBNR Liabilities Plus Expected Development on Reported Claims

EPC
(in thousands, except for number of claims)

Incurred Losses and Allocated Loss Expenses, Net of Reinsurance

	For the Years Ended December 31,										As of Dec 31, 2016	
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited			
Accident Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**IBNR (1)**	**Number of Claims**
2007	$ 439,938	$ 394,730	$ 385,373	$ 365,395	$ 364,454	$ 361,632	$ 358,820	$ 357,009	$ 356,106	$ 355,709	$ (213)	5,380
2008		841,913	834,562	806,976	782,005	777,476	769,906	774,108	768,610	767,031	10,701	9,013
2009			400,045	382,644	364,526	356,069	349,819	345,668	344,108	342,072	6,549	7,596
2010				596,340	611,917	589,119	571,375	565,494	574,091	568,574	(5,681)	8,532
2011					979,353	911,684	890,820	857,510	846,315	842,481	7,165	10,172
2012						689,032	660,128	635,712	636,896	626,132	6,086	11,131
2013							740,573	715,909	690,102	684,578	9,763	12,141
2014								703,860	735,789	723,382	6,921	14,609
2015									791,724	812,247	64,949	16,424
2016										969,709	228,630	15,279
										$ 6,691,915	Total	

Cumulative Paid Losses and Allocated Loss Expenses, Net of Reinsurance

	For the Years Ended December 31,									
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
Accident Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
2007	$ 69,288	$ 208,210	$ 298,622	$ 316,321	$ 329,883	$ 341,442	$ 347,421	$ 348,059	$ 350,602	$ 351,151
2008		152,946	467,537	604,163	653,749	730,513	748,607	752,294	747,374	750,022
2009			84,638	190,194	254,420	287,809	311,335	313,434	328,222	331,246
2010				166,353	380,649	476,832	526,375	543,985	542,011	547,486
2011					211,176	610,086	744,330	784,418	813,298	815,694
2012						161,117	389,827	531,299	574,467	593,981
2013							165,460	452,805	586,539	636,623
2014								180,735	504,925	645,682
2015									224,497	484,431
2016										324,575
										$ 5,480,891
All outstanding liabilities prior to 2007, net of reinsurance										24,692
Liabilities for unpaid losses and loss expenses, net of reinsurance										$ 1,235,716

Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
26%	38%	20%	6%	5%	1%	1%	—%	1%	1%

(1) Total IBNR Liabilities Plus Expected Development on Reported Claims

Specialty
(in thousands,except for number of claims)

Incurred Losses and Allocated Loss Expenses, Net of Reinsurance

	For the Years Ended December 31,										**As of Dec 31, 2016**	
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**	**Unaudited**	**Unaudited**	**Unaudited**	**Unaudited**	**Unaudited**			
Accident Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**IBNR (1)**	**Number of Claims**
2007	$ 825,002	$ 852,759	$ 847,085	$ 837,517	$ 832,003	$ 813,822	$ 802,825	$ 782,043	$ 803,587	$ 799,817	$ 4,787	18,554
2008		875,540	934,797	884,249	863,902	851,059	839,237	813,581	830,905	826,097	3,738	22,083
2009			987,010	978,410	909,964	882,725	872,379	862,563	807,644	798,315	1,770	20,875
2010				1,004,165	962,021	894,249	875,392	849,972	838,086	837,473	12,588	24,437
2011					975,525	974,012	945,212	901,762	915,622	908,417	34,269	25,070
2012						1,009,999	950,530	917,430	901,214	890,061	19,757	27,855
2013							940,906	979,459	943,553	941,582	45,919	31,103
2014								945,355	964,163	948,242	66,235	36,659
2015									967,064	1,027,349	137,686	39,552
2016										1,065,208	386,279	28,418
										$ 9,042,561	Total	

Cumulative Paid Losses and Allocated Loss Expenses, Net of Reinsurance

	For the Years Ended December 31,									
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**	**Unaudited**	**Unaudited**	**Unaudited**	**Unaudited**	**Unaudited**	
Accident Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
2007	$ 249,996	$ 468,074	$ 608,006	$ 675,749	$ 711,472	$ 739,870	$ 758,150	$ 774,511	$ 776,816	$ 779,786
2008		244,084	511,167	637,898	699,636	742,474	767,795	786,003	791,620	797,195
2009			311,190	552,213	660,099	712,561	736,233	754,577	764,637	767,565
2010				317,829	548,616	660,232	714,045	757,382	774,635	783,693
2011					294,082	603,843	738,976	794,906	817,521	840,552
2012						310,705	589,660	698,093	767,416	804,007
2013							331,485	596,425	716,825	792,004
2014								338,376	618,150	749,446
2015									335,018	656,573
2.016										409,665
										$ 7,380,486
							All outstanding liabilities prior to 2007, net of reinsurance			139,887
							Liabilities for unpaid losses and loss expenses, net of reinsurance			$ 1,801,962

Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
	35%	30%	14%	7%	4%	3%	2%	1%	1%	1%

(1) Total IBNR Liabilities Plus Expected Development on Reported Claims

Professional
(in thousands, except for number of claims)

Incurred Losses and Allocated Loss Expenses, Net of Reinsurance

	For the Years Ended December 31,										As of Dec 31, 2016	
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited			
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	IBNR (1)	Number of Claims
2007	$ 911,695	$ 1,130,926	$ 1,106,630	$ 1,061,995	$ 1,070,028	$ 995,364	$ 993,007	$1,000,256	$ 944,024	$ 928,677	$ 68,144	4,371
2008		1,033,982	1,087,436	1,131,685	1,221,906	1,195,931	1,174,486	1,167,289	1,136,720	1,114,924	60,568	5,187
2009			968,336	1,036,140	1,094,824	1,158,091	1,196,078	1,202,994	1,169,232	1,164,825	77,399	5,589
2010				989,432	984,780	957,486	1,035,571	996,024	1,016,013	1,061,340	113,635	5,418
2011					967,386	960,895	1,012,458	1,027,504	1,104,107	1,111,524	162,147	5,253
2012						976,450	976,593	1,011,363	1,124,437	1,117,970	212,997	5,320
2013							965,875	963,634	942,022	922,634	339,380	5,595
2014								747,671	799,952	843,003	371,270	5,969
2015									755,087	800,568	493,667	6,391
2016										730,198	654,395	3,704
										$ 9,795,663	Total	

Cumulative Paid Losses and Allocated Loss Expenses, Net of Reinsurance

	For the Years Ended December 31,									
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
2007	$ 25,207	$ 111,289	$ 240,287	$ 421,654	$ 540,255	$ 612,498	$ 692,492	$ 738,301	$ 776,445	$ 801,141
2008		17,987	185,149	346,923	516,426	697,071	782,381	853,405	911,634	969,698
2009			22,350	161,125	337,568	507,629	745,836	838,990	922,453	948,015
2010				21,803	155,845	324,580	480,475	623,975	735,626	803,916
2011					28,625	144,365	315,130	480,248	683,043	815,129
2012						44,486	195,088	378,059	591,820	713,165
2013							36,582	152,052	304,503	457,890
2014								17,042	138,832	312,548
2015									22,521	139,345
2016										23,462
										$ 5,984,309
All outstanding liabilities prior to 2007, net of reinsurance										140,029
Liabilities for unpaid losses and loss expenses, net of reinsurance										$ 3,951,383

Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
3%	13%	16%	16%	15%	9%	6%	4%	4%	1%

(1) Total IBNR Liabilities Plus Expected Development on Reported Claims

Casualty and other
(in thousands, except for number of claims)

Incurred Losses and Allocated Loss Expenses, Net of Reinsurance												
	For the Years Ended December 31,										As of Dec 31, 2016	
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited			
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	IBNR (1)	Number of Claims
2007	$ 1,082,033	$ 1,112,540	$ 1,087,608	$ 1,166,693	$ 1,175,846	$ 1,159,030	$ 1,163,024	$ 1,179,115	$ 1,171,058	$ 1,162,152	$ 85,633	17,237
2008		1,140,247	1,112,464	1,112,589	1,106,258	1,093,984	1,105,909	1,102,780	1,085,898	1,078,619	111,716	18,669
2009			1,116,831	1,101,930	1,089,006	1,083,830	1,064,751	1,089,350	1,048,630	1,041,605	104,475	20,836
2010				1,112,521	1,250,384	1,258,380	1,253,471	1,276,555	1,233,729	1,230,374	193,273	23,029
2011					1,092,125	1,139,829	1,160,676	1,134,783	1,160,467	1,138,849	175,768	24,942
2012						1,195,390	1,212,625	1,235,541	1,258,868	1,217,096	229,162	26,613
2013							1,295,006	1,344,357	1,403,279	1,375,254	407,549	29,179
2014								1,351,268	1,417,460	1,463,809	607,888	30,254
2015									1,335,856	1,399,039	722,174	31,862
2016										1,395,154	1,088,868	18,283
										$12,501,951	Total	

Cumulative Paid Losses and Allocated Loss Expenses, Net of Reinsurance										
	For the Years Ended December 31,									
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
2007	$ 22,680	$ 142,855	$ 315,942	$ 470,594	$ 751,437	$ 855,446	$ 917,798	$ 961,739	$ 993,114	$ 1,011,066
2008		46,589	175,724	384,593	557,222	673,130	771,029	843,167	886,979	898,297
2009			43,912	237,264	414,586	535,197	638,617	727,782	771,855	818,732
2010				101,673	292,403	516,383	649,167	759,673	862,584	937,451
2011					115,807	258,861	418,204	594,047	748,537	818,838
2012						117,735	297,186	471,949	644,936	775,521
2013							124,226	307,950	533,465	710,905
2014								133,592	335,216	555,967
2015									109,217	282,670
2.016										103,727
										$ 6,913,174
All outstanding liabilities prior to 2007, net of reinsurance										765,300
Liabilities for unpaid losses and loss expenses, net of reinsurance										$ 6,354,077

Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
7%	14%	16%	13%	13%	8%	5%	4%	3%	3%

(1) Total IBNR Liabilities Plus Expected Development on Reported Claims

Reinsurance Operations

(in thousands, except for number of claims)

Incurred Losses and Allocated Loss Expenses, Net of Reinsurance

	For the Years Ended December 31,										As of Dec 31, 2016	
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited			
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	IBNR (1)	Number of Claims
2007	$ 1,373,989	$ 1,315,895	$ 1,292,265	$ 1,252,940	$ 1,246,925	$ 1,239,171	$ 1,224,302	$ 1,201,176	$ 1,157,375	$ 1,144,626	$ 88,476	N/A
2008		1,613,114	1,605,756	1,567,923	1,550,254	1,561,457	1,559,826	1,559,314	1,535,515	1,535,533	121,015	N/A
2009			1,150,325	1,128,445	1,084,088	1,076,187	1,067,335	1,049,967	1,052,553	1,046,087	127,390	N/A
2010				1,280,586	1,302,532	1,302,827	1,290,292	1,286,737	1,295,555	1,284,178	150,491	N/A
2011					2,222,386	2,201,054	2,102,613	2,059,076	2,089,535	2,082,525	178,659	N/A
2012						1,827,087	1,860,740	1,840,530	1,832,972	1,812,667	247,825	N/A
2013							1,615,956	1,551,432	1,544,739	1,502,096	279,880	N/A
2014								1,434,902	1,452,029	1,418,828	344,569	N/A
2015									1,504,763	1,459,003	543,530	N/A
2016										1,845,237	1,067,346	N/A
										$15,130,780	Total	

Cumulative Paid Losses and Allocated Loss Expenses, Net of Reinsurance

	For the Years Ended December 31,									
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
Accident Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
2007	$ 153,912	$ 359,533	$ 592,431	$ 703,600	$ 793,787	$ 848,114	$ 897,073	$ 922,262	$ 925,230	$ 951,136
2008		327,154	654,658	883,897	1,019,382	1,104,015	1,170,828	1,216,006	1,244,802	1,285,355
2009			176,089	389,499	526,118	611,967	685,901	732,134	764,307	797,666
2010				232,372	477,894	667,841	774,216	836,148	936,971	1,011,698
2011					596,906	1,255,164	1,448,330	1,588,434	1,675,428	1,730,787
2012						318,115	785,212	1,070,442	1,223,403	1,313,092
2013							318,270	685,680	908,575	1,016,654
2014								287,780	653,323	826,700
2015									279,024	589,550
2.016										330,708
										$ 9,853,346
All outstanding liabilities prior to 2007, net of reinsurance										1,431,871
Liabilities for unpaid losses and loss expenses, net of reinsurance										$ 6,709,305

Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
20%	24%	15%	8%	5%	4%	1%	2%	3%	1%

(1) Total IBNR Liabilities Plus Expected Development on Reported Claims

Property and Other Short-tail Lines
(in thousands, except for number of claims)

Incurred Losses and Allocated Loss Expenses, Net of Reinsurance

	For the Years Ended December 31,										As of Dec 31, 2016	
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited			
Accident Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**IBNR (1)**	**Number of Claims**
2007	$ 655,785	$ 612,847	$ 591,325	$ 576,823	$ 556,160	$ 543,586	$ 542,517	$ 531,757	$ 505,908	$ 504,777	$ 9,948	N/A
2008		922,391	913,108	893,143	870,757	855,385	851,340	855,891	849,351	856,596	22,281	N/A
2009			574,748	541,926	507,488	488,419	479,539	474,526	468,240	472,758	4,958	N/A
2010				821,119	842,728	846,563	852,550	857,788	840,206	840,582	26,847	N/A
2011					1,728,879	1,697,826	1,617,499	1,589,207	1,593,064	1,585,694	42,172	N/A
2012						1,268,108	1,294,768	1,285,569	1,255,565	1,243,866	69,188	N/A
2013							1,068,975	1,011,548	975,565	939,295	45,977	N/A
2014								865,668	855,081	814,558	57,491	N/A
2015									878,711	829,691	163,854	N/A
2016										1,140,759	531,843	N/A
										$ 9,228,576	Total	

Cumulative Paid Losses and Allocated Loss Expenses, Net of Reinsurance

	For the Years Ended December 31,									
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
Accident Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
2007	$ 128,299	$ 274,682	$ 427,810	$ 470,765	$ 487,471	$ 491,862	$ 503,233	$ 497,701	$ 478,062	$ 483,023
2008		291,995	541,613	693,174	757,091	784,005	801,027	805,951	803,919	816,877
2009			145,413	307,294	389,835	421,579	441,032	445,905	445,861	453,626
2010				215,463	429,578	577,128	639,012	665,932	734,453	783,155
2011					581,324	1,196,404	1,344,405	1,432,899	1,472,992	1,493,813
2012						293,705	713,154	933,717	1,028,319	1,068,475
2013							291,534	604,497	768,385	819,523
2014								250,708	556,548	658,511
2015									236,009	472,543
2.016										265,695
										$ 7,315,241
									All outstanding liabilities prior to 2007, net of reinsurance	287,838
									Liabilities for unpaid losses and loss expenses, net of reinsurance	$ 2,201,173

Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
29%	34%	17%	7%	3%	4%	2%	1%	(1)%	1%

(1) Total IBNR Liabilities Plus Expected Development on Reported Claims

Casualty and Other Long-Tail Lines
(in thousands, except for number of claims)

Incurred Losses and Allocated Loss Expenses, Net of Reinsurance

	For the Years Ended December 31,										As of Dec 31, 2016	
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited			
Accident Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**IBNR (1)**	**Number of Claims**
2007	$ 718,204	$ 703,048	$ 700,940	$ 676,117	$ 690,765	$ 695,585	$ 681,785	$ 669,419	$ 651,467	$ 639,849	$ 78,528	N/A
2008		690,723	692,648	674,780	679,497	706,072	708,486	703,423	686,164	678,937	98,734	N/A
2009			575,577	586,519	576,600	587,768	587,796	575,441	584,313	573,329	122,432	N/A
2010				459,467	459,804	456,264	437,742	428,949	455,349	443,596	123,644	N/A
2011					493,507	503,228	485,114	469,869	496,471	496,831	136,487	N/A
2012						558,979	565,972	554,961	577,407	568,801	178,637	N/A
2013							546,981	539,884	569,174	562,801	233,903	N/A
2014								569,234	596,948	604,270	287,078	N/A
2015									626,052	629,312	379,676	N/A
2016										704,478	535,503	N/A
										$ 5,902,204	Total	

Cumulative Paid Losses and Allocated Loss Expenses, Net of Reinsurance

	For the Years Ended December 31,									
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
Accident Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
2007	$ 25,613	$ 84,851	$ 164,621	$ 232,835	$ 306,316	$ 356,252	$ 393,840	$ 424,561	$ 447,168	$ 468,113
2008		35,159	113,045	190,723	262,291	320,010	369,801	410,055	440,883	468,478
2009			30,676	82,205	136,283	190,388	244,869	286,229	318,446	344,040
2010				16,909	48,316	90,713	135,204	170,216	202,518	228,543
2011					15,582	58,760	103,925	155,535	202,436	236,974
2012						24,410	72,058	136,725	195,084	244,617
2013							26,736	81,183	140,190	197,131
2014								37,072	96,775	168,189
2015									43,015	117,007
2016										65,013
										$ 2,538,105
							All outstanding liabilities prior to 2007, net of reinsurance			1,144,033
							Liabilities for unpaid losses and loss expenses, net of reinsurance			$ 4,508,132

Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
5%	9%	10%	10%	9%	7%	7%	6%	6%	4%

(1) Total IBNR Liabilities Plus Expected Development on Reported Claims

Reconciliation

(U.S. dollars in thousands)		**December 31, 2016**
Net outstanding liabilities		
Insurance Operations		
EPC	$	1,235,716
Specialty		1,801,962
Professional		3,951,383
Casualty and other		6,354,077
Reinsurance Operations		
Property and Other Short-Tail lines		2,201,173
Casualty and Other Long-Tail lines		4,508,132
Subtotal, disaggregated triangles	$	20,052,443
Unallocated loss expenses		482,680
Discount (1)		(413,522)
Provision for uncollectible reinsurance		42,119
Other		295,551
Total net liability for unpaid losses and loss expenses		20,459,271
Reinsurance recoverable on unpaid losses		
Insurance Operations		
EPC	$	486,595
Specialty		524,545
Professional		1,195,720
Casualty		2,836,800
Reinsurance Operations		
Property and Other Short-Tail lines		242,845
Casualty and Other Long-Tail lines		122,190
Other		71,605
Total recoverable on unpaid losses and loss expenses	$	5,480,300
Unpaid losses and loss expenses	$	25,939,571

(1) As noted in Note 10(c), "Losses and Loss Expenses - Loss Reserve Discounting," the Company discounts only 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.

(b) Net losses and loss expenses incurred

Net losses and loss expenses incurred for the years ended December 31 are comprised of:

(U.S. dollars in thousands)	2016	2015
Loss and loss expenses payments	$ 6,828,012	$ 6,505,075
Change in unpaid losses and loss expenses	976,401	(168,263)
Change in unpaid losses and loss expenses recoverable	(238,086)	(440,189)
Paid loss recoveries	(1,493,492)	(1,130,423)
Net losses and loss expenses incurred	$ 6,072,835	$ 4,766,200

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)	2016	2015
Insurance operations	$ (91,459)	$ (65,030)
Reinsurance operations	(210,083)	(241,600)
Total	$ (301,542)	$ (306,630)

The significant developments in prior year loss reserve estimates for each of the years indicated within the Company's Insurance and Reinsurance operations are discussed below.

Insurance Operations

The following table summarizes the net (favorable) adverse prior year development by business group relating to the Insurance operations for the indicated years ended December 31:

(U.S. dollars in thousands)	2016	2015
EPC	$ (38,366)	$ (6,447)
Specialty	(5,655)	(93,043)
Professional	10,813	5,740
Casualty and Other	(58,251)	28,720
Total	$ (91,459)	$ (65,030)

Net favorable prior year reserve development of $91.5 million for the year ended December 31, 2016 for the Insurance operations. This amount differs from the implied change in ultimate losses that can be calculated from the above triangles because the triangles exclude accident years prior to 2007 as well as minor business and, as noted earlier, utilize a different approach for handling foreign exchange. The total net prior year development of $91.5 million was driven by the following:

- For EPC lines, net prior year development was $38.4 million favorable. This was driven by reflecting better than expected reported non-catastrophe loss experience, particularly on the more recent years in the energy book, and reductions in the Company's estimates for prior year catastrophe losses.
- For specialty lines, net prior year development was $5.7 million favorable. This was driven by releases of $19.8 million in the marine business due to better than expected reported loss experience on the cargo, hull and liability businesses, and $5.9 million in fine art and species to reflect benign reported loss activity. This was partially offset by strengthening of $26.0 million in Accident and Health driven by deteriorations in recent accident years in the U.S. and Switzerland books.
- For professional lines, net prior year development was $10.8 million adverse. This was driven by significant large loss experience on the international financial lines management liability book, particularly on the 2015 report year and strengthening in more recent years on the discontinued design subcontractors default portfolio. This was partially offset by better than expected loss experience reported on the Bermuda directors and officers and employment practices liability portfolio and reductions in the Company's estimates on the design practice book.
- For casualty and other lines, net prior year development was $58.3 million favorable. This was driven by releases of $72.2 million in international casualty primarily to reflect better than expected loss experience reported on the general and professional liability portfolio, predominantly on the 2011 and prior years, and $21.7 million in discontinued casualty primarily due to the Company's reassessment of the IBNR provision for a large risk U.S. Casualty portfolio discontinued prior to 2008, following favorable claims resolutions in recent years. This was partially offset by

strengthening to reflect worse than expected loss experience reported on more recent years in the excess and surplus portfolio and the newly acquired Allied business.

Net favorable prior year reserve development totaled $65.0 million for the Insurance operations for the year ended December 31, 2015. Specialty benefited from releases in marine, the discontinued international political risk portfolio due to a favorable settlement of a loss on the 2009 accident year, and reductions in the discontinued specialty book. Casualty was subject to adverse development with deteriorations in excess and surplus and a large claim in the surety portfolio partially offset by releases in the excess casualty book and international casualty reflecting better than expected loss experience. Strengthening in the core U.S. standard commercial book and select accountants and public entities portfolios led to overall adverse development in Professional.

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 Operations

The following table summarizes the net (favorable) adverse prior year development by line of business relating to the Reinsurance operations for the indicated years ended December 31:

(U.S. dollars in thousands)	2016	2015
Property and Other Short-Tail Lines	$ (134,440)	$ (173,754)
Casualty and Other Long-Tail Lines	(75,643)	(67,846)
Total	$ (210,083)	$ (241,600)

Net favorable prior year reserve development for the year ended December 31, 2016 totaled $210.1 million for the Reinsurance operations. This amount differs from the implied change in ultimate losses that can be calculated from the above triangles because the triangles exclude accident years prior to 2007 as well as minor business and, as noted earlier, utilize a different approach for handling foreign exchange. The total net prior year development of $210.1 million was attributable to the following:

- Net favorable prior year development for the short-tail lines totaled $134.4 million. Details of the significant components are as follows:
  - For property catastrophe lines, net prior year development was $76.6 million favorable primarily due to IBNR release on older catastrophes and better than expected experience.
  - For property other lines, net prior year development was $25.6 million favorable mainly due to better than expected development on attritional losses on the Property lines partially offset by adverse developments on the crop book.
  - For specialty lines, net prior year development was $32.2 million favorable arising from better than expected development on attritional losses, predominantly on the marine book.
- Net favorable prior year development for the long-tail lines totaled $75.6 million. Details of the significant components are as follows:
  - For casualty lines, net prior year development was $65.5 million favorable due to better than expected development on attritional losses for the 2013 and prior years of account.
  - For other lines, net prior year development was $10.0 million favorable largely due to better than expected development on attritional losses on the whole account book.

Net favorable prior year reserve development totaled $241.6 million for the year ended December 31, 2015. The short-tail lines benefited from $88.9 million in favorable development from Property other lines, $50.3 million favorable development in property catastrophe lines and $34.6 million in favorable development within specialty lines. The release in long tail lines was due to favorable development of $40.1 million and $27.8 million in casualty and other, respectively.

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.

(c) 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 3.75% in 2016 and 2015. The interest rate approximates the implied return on the market-based assets supporting the expected cash flows of the Company's 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. Tabular unpaid losses and loss expenses, net of reinsurance, at December 31, 2016 and 2015 on an undiscounted basis were $727.4 million and $747.4 million, respectively. The aggregate discount for the time value of money deducted to derive the liability for unpaid losses and loss expenses were $287.7 million and $302.1 million at December 31, 2016 and 2015, respectively.

The related discounted unpaid losses and loss expenses were $439.7 million and $445.3 million at December 31, 2016 and 2015, respectively. The interest accretion related to the unwind of the discounted reserves was $18.6 million and $7.8 million during the years ended December 31, 2016 and 2015, respectively. This interest accretion was recorded in the incurred loss line as adverse prior year development.

The Company records a specific reserve allowance for Periodical Payment Orders ("PPOs") related to bodily injury liability claims. This allowance includes the unpaid losses for claims already settled and notified as PPOs at December 31, 2016, 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 2% at both December 31, 2016 and 2015. Unpaid losses and loss expenses, net of reinsurance, at December 31, 2016 and 2015 on an undiscounted basis were $281.6 million and $298.1 million, respectively. The aggregate discount for the time value of money deducted to derive the liability for the unpaid losses and loss expenses were $125.9 million and $130.2 million at December 31, 2016 and 2015. After discounting the future care element, the unpaid losses and loss expenses were $155.7 million and $167.9 million at December 31, 2016 and 2015, respectively. The decrease in the net undiscounted unpaid losses and loss expenses between December 31, 2016 and 2015 is mainly due to foreign exchange rate movements. The interest accretion related to the unwind of the discounted reserves was $2.8 million and $2.6 million during the calendar years ended December 31, 2016 and 2015, respectively. This interest accretion was recorded in the incurred loss line as adverse prior year development.

(d) 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 Casualty underwriting division 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 four 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 $60.0 million, not including coverage for claims handling costs over a defined period.

(4) Contribution of Catlin - aviation insurance contracts written by Catlin in the Lloyd's market where the specific asbestos exclusion language was not implemented until 2003. Exposures only extend back to 1993 as Equitas was established to take on the Lloyd's market exposure for 1992 and prior. Exposure is due to asbestos-containing products in use by the aviation industry leading to claims against aviation manufacturers for asbestosis, mesothelioma and lung cancer.

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)*	**2016**	**2015**
Net unpaid losses and loss expenses at beginning of year	$ 93,704	$ 81,416
Net incurred losses and loss expenses	9,042	15,663
Less net paid losses and loss expenses	9,912	9,087
Net increase (decrease) in unpaid losses and loss expenses	$ (870)	$ 6,576
Acquired reserves	—	5,712
Net unpaid losses and loss expenses at end of year	92,834	93,704
Unpaid losses and loss expenses recoverable at end of year	83,430	93,688
Gross unpaid losses and loss expenses at end of year	$ 176,264	$ 187,392

Reserves for incurred but not reported losses, net of reinsurance, included in the above table were $60.3 million and $65.1 million at December 31, 2016 and 2015, respectively. Unpaid losses recoverable are net of potential uncollectible amounts.

At December 31, 2016, the Company had 2,417 open claim files for potential discontinued asbestos claims exposures and 458 open claim files for potential run-off environmental claims exposures. Approximately 34% and 32% of the open claim files are due to precautionary claim notices in 2016 and 2015, respectively. Precautionary claim notices are submitted by the ceding companies in order to preserve their right to receive coverage under the reinsurance contract. Such notices do not contain an incurred loss amount to the Company. The increase in total open claim files during 2015 was largely due to the Contribution of Catlin, as noted above.

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, 2014	1,399	459
New claims reported in 2015	272	67
Claims resolved in 2015	(246)	(96)
Reserves acquired in 2015	1,166	—
Total number of claims outstanding at December 31, 2015	2,591	430
New claims reported in 2016	579	69
Claims resolved in 2016	(753)	(41)
Total number of claims outstanding at December 31, 2016	2,417	458

The Company’s reserving process includes an ongoing 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 IBNR 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 interpretations and application of insurance and reinsurance coverage and liability; (ii) the lack of reliable 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, 2016 and 2015, further adverse development is not expected to be material to the Company’s overall net loss reserves. The Company believes it has made reasonable provisions for its discontinued asbestos and run-off environmental exposures and is unaware of any specific issues that would significantly affect its estimate of loss and loss expenses.

11. Future Policy Benefit Reserves

Net future policy benefit reserves are comprised of the following:

As of December 31 *(U.S. dollars in thousands)*		**2016**		**2015**
Traditional Life	$	737,252	$	792,001
Annuities		2,768,795		3,371,499
Gross future policy benefit reserves	$	3,506,047	$	4,163,500
Reinsurance recoverable - GreyCastle Life Retro Arrangements	$	(3,072,615)	$	(3,719,131)
Reinsurance recoverable - U.S. Term Life Retro Arrangements	$	(270,238)	$	(284,481)
Reinsurance recoverable - Other life retrocessions	$	(10,997)	$	(13,801)
Net future policy benefit reserves	$	152,197	$	146,087

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, 2016 and 2015, the average interest rate used for the determination of the future policy benefits for these contracts was 4.0% and 3.3%, respectively. Gross future policy benefit reserves for the years ended December 31, 2016 and 2015 were $3.5 billion and $4.2 billion, respectively. The decrease in gross future policy benefit reserves during 2016 was from normal course releases on single premium annuities in line with the benefits paid and mortality of underlying policyholders, as well as foreign exchange movements.

Under the terms of the sale of the life reinsurance subsidiary to GreyCastle in 2014, the Company has reinsured $3.1 billion and $3.7 billion at December 31, 2016 and 2015 respectively, of its future policy benefit reserves under the GreyCastle Life Retro Arrangements. The Company continues to own, on a funds withheld basis, assets supporting the GreyCastle 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 GreyCastle life retrocession arrangements (net of future policy benefit reserves recoverable)" on the consolidated balance sheets, and is comprised of the following at December 31, 2016 and 2015:

(U.S. dollars in thousands)		**2016**		**2015**
Assets held on a funds withheld basis relating to the GreyCastle Life Retro Arrangements	$	4,071,583	$	4,633,760
Reinsurance recoverable from GCLR		(3,072,615)		(3,719,131)
Funds withheld on GreyCastle life retrocession arrangements (net of future policy benefit reserves recoverable)	$	998,968	$	914,629

The Company has also reinsured an additional $270.2 million and $284.5 million at December 31, 2016 and 2015, respectively, of its U.S. Term Life future policy benefit reserves ("U.S. Term Life Retro Arrangements"). The Company continues to own, on a funds withheld basis, assets supporting the U.S. Term Life Retro Arrangements. Based upon the contractual right of offset, the funds withheld liability is recorded net of future policy benefit reserves recoverable, and is included within "Reinsurance balances payable" on the consolidated balance sheets.

12. 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)	**2016**	**2015**	**2016**	**2015**
Direct	$ 9,166,627	$ 7,847,236	$ 9,142,690	$ 7,717,173
Assumed	4,458,981	2,821,771	4,074,817	3,465,421
Ceded	(3,394,972)	(2,780,183)	(3,451,620)	(3,018,410)
Net	$ 10,230,636	$ 7,888,824	$ 9,765,887	$ 8,164,184

The Company recorded reinsurance recoveries on losses and loss expenses incurred of $1.7 billion and $1.6 billion for the years ended December 31, 2016 and 2015, respectively.

The following table presents an analysis of total unpaid losses and loss expenses recoverable for the years ended December 31:

(U.S. dollars in thousands)	**2016**	**2015**
P&C Operations	$ 5,480,300	$ 5,248,905
Corporate and Other	10,997	13,801
Total unpaid losses and loss expenses recoverable	$ 5,491,297	$ 5,262,706

The table above excludes a combined $3.1 billion and $0.3 billion of the Company's future policy benefit reserve recoverables under the GreyCastle Life Retro Arrangements and U.S. Term Life Retro Arrangements, as defined in Note 11, "Future Policy Benefit Reserves," respectively, and are also excluded from the remainder of this disclosure.

At December 31, 2016 and 2015, the total reinsurance assets of $6.1 billion and $5.7 billion, respectively, included reinsurance balances receivable for paid losses and loss expenses of $577.5 million and $418.7 million, respectively, with $5.5 billion and $5.3 billion of unpaid losses and loss expenses recoverable, 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, 2016 and 2015, the allowance for uncollectible reinsurance relating to both reinsurance balances receivable and unpaid losses and loss expenses recoverable was $62.8 million and $82.1 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 $4.1 billion and $3.8 billion at December 31, 2016 and 2015, 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 unpaid loss and loss expense recoverables was $42.1 million and $58.2 million at December 31, 2016 and 2015, 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 $20.7 million and $23.9 million at December 31, 2016 and 2015, respectively.

At December 31, 2016, 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, 2016 and 2015, approximately 95% and 96%, respectively, of the total outstanding 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, 2016, by reinsurers owing 3% or more of such total:

Name of Reinsurer	Reinsurer Financial Strength Rating	% of Total
Munich Reinsurance Co.	AA-/Stable	25.6%
Lloyd's Syndicates	A+/Stable	15.9%
Swiss Reinsurance Co.	AA-/Stable	7.2%
Transatlantic Reinsurance Company	A+/Stable	4.1%
Arch Reinsurance Company	A+/Negative	3.7%
AXIS Reinsurance Co.	A+/Stable	3.0%

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, 2016:

Reinsurer Financial Strength Rating	% of Total
AAA	2.8%
AA	44.5%
A	48.1%
BBB	0.6%
BB and below	0.6%
Captives	3.3%
Not Rated	0.1%
Total	100.0%

13. 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 P&C agreements have been recorded as deposit liabilities and are initially matched by an equivalent amount of investments. The Company has investment risk related to its ability to generate sufficient investment income to enable the total invested assets to cover the payment of the ultimate liability. See Note 4, "Investments," for further information relating to the Company's net investment income as well as realized and unrealized investment (losses) gains. Each deposit liability accrues at a rate equal to the internal rate of return of the payment receipts and obligations due during the life of the agreement. Where the timing and/or amount of future payments are uncertain, cash flows reflecting the Company's actuarially determined best estimates are utilized. Deposit liabilities are initially recorded at an amount equal to the assets received.

At December 31, 2016 and 2015, total deposit liabilities were $1.1 billion and $1.2 billion, respectively. For the years ended December 31, 2016 and 2015 interest expense of $39.7 million and $42.2 million, respectively, was recorded related to the accretion of deposit liabilities.

14. Financing Arrangements

(a) Letter of Credit Facilities and Other Sources of Collateral

The Company has several credit facilities provided on both syndicated and bilateral bases from commercial banks. As described in more detail below, the Company may utilize the full capacity of these credit facilities to issue letters of credit in support of non-admitted insurance and reinsurance operations in the U.S. and to meet capital requirements at Lloyd's. Alternatively, under certain of the credit arrangements, the Company instead may elect to utilize a stated portion of such facilities' capacity for revolving loans to support other operating or financing needs, which would reduce the amount available for letters of credit. The Company and several of its wholly-owned subsidiaries provide guarantees, on a joint and several basis, for obligations of the Company under certain of these facilities.

The Company's available credit facilities at December 31, were as follows:

(U.S. dollars in thousands)	2016 (1)		2015 (1)	
Total available credit facilities – commitments (2)	$	3,991,687	$	4,463,041
Letters of credit – in use	$	2,345,293	$	2,515,653
Collateralized by certain assets of the Company's investment portfolio		48.6%		50.9%

(1) As of December 31, 2016 and December 31, 2015, there were fifteen available credit facilities.
(2) As of December 31, 2016 and December 31, 2015 the stated portion of allowable credit facilities permitted to be utilized for revolving loans was $1.0 billion and $1.4 billion, respectively. However, as of December 31, 2016 and December 31, 2015, $245.0 million and $527.1 million, respectively, of such facilities' limits were utilized to issue letters of credit, leaving $755.0 million and $822.9 million, respectively, available either to issue additional letters of credit or to support other operating or financing needs under these particular facilities.

Funds at Lloyd's

In November 2015, we entered into four bilateral unsecured credit agreements, each providing for $125 million of letters of credit for Funds at Lloyd's purposes (FAL Facility I, FAL Facility II, FAL Facility III, and FAL Facility IV, collectively the "FAL Facilities") for an aggregate amount of $500 million. Each of the FAL Facilities expires in 2019. The FAL Facilities replaced four unsecured bilateral facilities available for utilization by Catlin-Bermuda for Funds at Lloyd's purposes that we terminated in November 2015.

Citi USA Facility

On June 10, 2015, XL-Cayman, an intermediary parent, entered into the fifth amendment to the credit agreement with Citicorp USA, Inc., as administrative agent and issuing lender, and the lenders party thereto (as amended, the "2015 Citi Facility"). The 2015 Citi Facility and a continuing agreement for standby letters of credit with Citibank, N.A. were initially entered into on May 7, 2013.

The 2015 Citi Facility and the continuing agreement for standby letters of credit provides for issuance of letters of credit and revolving credit loans in an aggregate amount of up to $250 million. XL-Cayman has the option to increase the maximum amount of letters of credit and revolving credit loans available under the 2015 Citi Facility with the lender's and issuing lender's consent.

The commitments under the 2015 Citi Facility expire on, and such credit facility is available until, the earlier of (i) June 20, 2017 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.

Goldman Sachs Facility

On September 8, 2015, XL-Cayman entered into a new credit agreement with Goldman Sachs Mortgage Company, as administrative agent and issuing lender, and a continuing agreement for standby letters of credit with Goldman Sachs Bank USA. On September 9, 14, and 16, 2015, XL-Cayman entered into first, second and third amendments, respectively, to such credit agreement (as amended, the Goldman Facility"). XL-Cayman entered into the Goldman Facility to replace the letter of credit capacity under a credit agreement with Citicorp USA, Inc. initially entered into on August 6, 2013 that expired by its terms on September 20, 2015.

The Goldman Facility and the continuing agreement for standby letters of credit provide for issuance of letters of credit in an aggregate amount of up to $200 million. XL-Cayman has the option to increase the maximum amount of letters of credit available under the Goldman Facility with the lender's and issuing lender's consent.

The commitments under the Goldman Facility expire on, and such credit facility is available until, the earlier of (i) September 20, 2017 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.

Citi EU Facility

On December 30, 2014, XLB reduced the capacity available under a continuous letter of credit facility between XL Bermuda Limited and Citibank Europe plc (the "Citi EU Facility") from $750 million to $600 million. The Citi EU Facility is collateralized by pledged financial assets.

Syndicated Facilities

On August 5, 2016, the Company entered into agreements with a banking syndicate to provide: (a) a new secured credit facility that provides for the issuance of letters of credit up to $750 million (the "Secured Syndicated Facility"), and (b) a new unsecured credit facility that provides for the issuance of letters of credit and revolving credit loans up to $750 million (the "Unsecured Syndicated Facility", and together with the Secured Syndicated Facility, the "Syndicated Facilities"). The Company has the option to increase the maximum amount of letters of credit available under the facilities by $500 million in aggregate across the facilities.

In connection with the Syndicated Facilities, the Company's previous syndicated credit agreements originally entered into in November 2013, as well as certain related security arrangements, were terminated. The commitments under the Syndicated Facilities are available until, the earlier of (i) August 5, 2021 (unless extended by the parties) 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 Syndicated Facility 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.

London Market Facility

The Company continues to maintain $250 million of available capacity pursuant to a continuous credit agreement with Citibank N.A. (the "London Market Facility") originally entered into in 1993, that is collateralized by pledged financial assets.

Credit Agricole Facilities

In November and December of 2016, we entered into two credit agreements with Credit Agricole Corporate and Investment Bank ("Credit Agricole Facility I" and "Credit Agricole Facility II," respectively, and collectively, the "Credit Agricole Facilities"). Each credit agreement provides for the issuance of letters of credit in an amount up to $125 million. The commitments under the Credit Agricole Facilities expire on, and such facilities are available until, the earlier of (i) December 15, 2019, provided that, if neither the Company nor the lender provides notice to the other not more than 90 days, but at least 30 days, prior to such date, the commitment termination date will be extended to December 15, 2020, 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.

Facilities Assumed Through Catlin Acquisition

As a result of the Catlin Acquisition on May 1, 2015, the Company assumed, and may continue to access, the following letter of credit facilities:

- A bilateral facility pursuant to a continuous credit agreement, available for utilization by Catlin-Bermuda, collateralized by pledged financial assets (the "CICL Facility"). As of December 31, 2016, $180 million of capacity was available under this facility.
- A bilateral facility pursuant to a continuous credit agreement, available for utilization by Catlin Re Switzerland Ltd, collateralized by pledged financial assets (the "CRCH Facility"). As of December 31, 2016, $250 million of capacity was available under this facility.

- A facility managed by Lloyd's, acting for Catlin Syndicate 2003 (the "Syndicate 2003 Facility"). As of December 31, 2016, $12 million of letters of credit were issued under this facility.

In addition to letters of credit, the Company has established insurance trusts in the U.S. that provide cedants with statutory relief required under state insurance regulation in the U.S. 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.

The majority, 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, a maximum ratio of total consolidated debt plus consolidated net worth. In addition, the Company's Debt Documents contain other customary affirmative and negative covenants as well as certain customary events of default. Generally, each of the Company's Debt Documents provide for an event of default in the event of bankruptcy, insolvency or reorganization of the Company , and the majority of the Company's bank facilities provide an event of default if there is a change of control in the Company.

Given that many 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.

15. Related Party Transactions

(a) Investment Manager Affiliates

At December 31, 2016 and 2015, the Company owned minority stakes in four and six independent investment management companies ("Investment Manager Affiliates"), respectively, that are actively managing client capital and seeking growth opportunities. 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. In addition, at December 31, 2016 and 2015, the company owned minority stakes in one and two independent firms, respectively, that provide technology and other services to alternative asset managers and allocators, respectively, and the results of the Company's interests in these enterprises are included in Investment Manager Affiliates. The Company pays fees to these Investment Manager Affiliates in exchange for them providing their services to the Company. The results of Investment Manager Affiliates are included in the Statement of Income under "income (loss) from operating affiliates. See Note 5, "Investments in Affiliates," included herein, for further information.

(b) Assumed Reinsurance Contracts

In the normal course of business, the Company enters into assumed reinsurance contracts with certain of its other strategic affiliates, or their subsidiaries. During the years ended December 31, 2016 and 2015, these contracts resulted in reported net premiums, reported net losses and reported net acquisition costs as summarized below.

(U.S. dollars in thousands)	2016	2015
Reported net premiums	$ 94,358	$ 42,042
Reported net losses	$ 44,728	$ 13,246
Reported net acquisition costs	$ 39,131	$ 14,682

Results through April 1, 2015 include amounts under an assumed reinsurance contract with a wholly-owned subsidiary of ARX, an insurance operating affiliate of the Company through that date. The Company disposed of its investment in ARX on April 1, 2015, and thus, after that date, all amounts under this contract are no longer reported as related party transactions. See Note 3(g), "Acquisitions, Disposals and Contribution from Parent - Sale of Operating Affiliate."

(c) New Ocean

Commencing in 2014, several of the Company's wholly-owned subsidiaries retroceded assumed reinsurance business to special purpose reinsurers that receive capital from funds managed by the Company's subsidiary, New Ocean Capital Management as, discussed in Note 16, "Variable Interest Entities." Underwriting administration services are provided to the special purpose reinsurers by other subsidiaries of the Company under service fee agreements, while investment advisory services are provided by New Ocean Capital Management. During the year ended December 31, 2016, ceded premiums earned, ceded losses and loss expenses incurred, ceding commission income, and other fee income related to these retrocessional contracts were not material to the Company.

(d) New Energy

On July 24, 2015, as described in Note 3(e), "Acquisitions, Disposals and Contribution from Parent - New Energy Risk," the Company completed its acquisition of 63.63% of the additional shares of New Energy for approximately $8.8 million, increasing its ownership of the entity to a majority portion 94.79%. These shares are held within the XL Innovate Fund. A substantial portion of the additional shares were purchased at directly from the family trusts of a Company employee, based on a market valuation of New Energy performed by an independent third party provider. The remaining 5.21% of equity shares of New Energy held by the family trusts of the employee was then contributed in-kind to XL Innovate Fund based on the share price implied by the independent valuation. Such contribution was made in partial satisfaction of the employee's aggregate 5.21% investment commitment to the Fund and resulted in XL Innovate Fund owning 100% of the net equity of New Energy, and the family trusts of the employee owning a 5.21% non-controlling equity interest in XL Innovate Fund. The employee serves as a member of the board of directors of both New Energy and XL Innovate Fund, and maintains responsibility over the business generated by New Energy. There were no other material transactions between the Company and this employee for the year ended December 31, 2016.

16. 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. Within its investment portfolio, the Company has holdings in hedge funds, private equity funds and other investment vehicles. A number of these vehicles are considered VIEs based on their legal from and the generally passive role of their investors. As the Company lacks the ability to control the activities which most significantly impact the economic performance of these VIEs, the Company is not considered the primary beneficiary and does not consolidate these entities. The activities of the entities are generally limited to holding investments. The exposure to loss from these investments is limited to the carrying value of the investments at the balance sheet date.

During the third quarter of 2013, the Company, along with other investors, formed New Ocean Capital Management, 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 Capital Management through its ownership of common shares and, accordingly, the financial statements of New Ocean Capital Management have been included in the consolidated financial statements of the Company. None of the assets, liabilities, revenues or net income of New Ocean Management were material to the Company during the current year. The equity interest attributable to third party investors in New Ocean Capital Management recorded in the Company’s Consolidated Balance Sheets as "Non-controlling interest in equity of consolidated subsidiaries" was $1.0 million and $0.4 million at December 31, 2016 and December 31, 2015, respectively.

During the fourth quarter of 2013, the Company, along with other investors, formed a new Bermuda-based company, New Ocean Focus Cat Fund Ltd. ("New Ocean FCFL"), which is considered a VIE under GAAP. During the second quarter of 2014, the company formed another Bermuda-based investment company, New Ocean Market Value Cat Funds, Ltd. ("New Ocean MVCFL"), which is also considered a VIE under GAAP. New Ocean MVCFL primarily invests in insurance-linked securities, with a current focus on catastrophe bonds.

During the year ended December 31, 2014, New Ocean FCFL invested in a special purpose Bermuda reinsurer, Vector Reinsurance Ltd ("Vector Re"), which was formed for the purpose of underwriting collateralized excess of loss reinsurance with a focus on global property catastrophe risks. During the first quarter of 2015 New Ocean MVCFL also invested in Vector Re. Most of Vector Re’s current underwriting activity relates to reinsurance business assumed from the Company's subsidiaries. Underwriting administration and claims services are provided to Vector Re by the Company under service fee contracts, while investment advisory services are provided by New Ocean Capital Management.

The Company currently holds majority equity interests, which are considered to be the controlling financial interests, in New Ocean FCFL and New Ocean MVCFL, and by extension Vector Re. Accordingly, included in the consolidated financial statements of the Company are the total net assets of New Ocean FCFL, New Ocean MVCFL and Vector Re of $223.4 million and $175.8 million as of December 31, 2016 and December 31, 2015, respectively. The Company's shares of revenue and net income in these VIEs were not material to the Company for the twelve months ended December 31, 2016. All inter-company transactions between the Company's entities have been eliminated in consolidation. The equity interest attributable to third party investors in New Ocean FCFL, New Ocean MVCFL and Vector Re that is reflected in the Company's Consolidated Balance Sheets as "Non-controlling interest in equity of consolidated subsidiaries" was $112.1 million and $70.5 million as of December 31, 2016 and December 31, 2015, respectively.

17. 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 after an employee has been with the Company for five years. The Company's expenses for its qualified contributory defined contribution retirement plans were $86.3 million and $75.8 million at December 31, 2016 and 2015, 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 each of December 31, 2016 and 2015 was $2.3 million and $3.2 million, respectively, representing the entire unfunded projected benefit obligations.

U.K. Plans

A contributory defined benefit pension plan 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, three 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 $4.1 million and $4.8 million at December 31, 2016 and 2015, respectively, representing the entire unfunded projected obligation.

In connection with the Contribution of Catlin described in Note 3(f) "Acquisitions, Disposals and Contribution from Parent - Contribution of Catlin" the Company assumed additional assets and liabilities associated with a further U.K. defined benefit plan within Catlin. This plan has been closed to new members since 1993. The current membership consists only of pensioners and deferred members. Benefits are based on length of service and compensation.

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.

The Company acquired certain defined benefit pension liabilities with the acquisition of XL GAPS in 2007. The related balances are not included in the tables below as the liabilities are insured under an annuity type contract.

Funded Status - All Plans

The funded status by geographical region of all the Company's retirement plans at December 31, 2016 and 2015 is as follows:

Funded Status *(U.S. dollars in thousands)*	2016	2015
U.S.	$ (14,093)	$ (16,306)
U.K.	(2,316)	(4,650)
Other European	(26,377)	(21,807)
Funded status – end of year	$ (42,786)	$ (42,763)

The status of all the Company's retirement plans at December 31, 2016 and 2015 is as follows:

Change in projected benefit obligation *(U.S. dollars in thousands)*	2016	2015
Projected benefit obligation – beginning of year	$ 122,165	$ 93,124
Projected benefit obligation assumed due to Catlin Acquisition	—	28,414
Service cost (1)	1,701	1,494
Interest cost	5,126	4,382
Actuarial (gain) / loss	7,948	2,821
Benefits and expenses paid	(5,977)	(3,747)
Foreign currency (gains) / losses	(10,248)	(4,047)
Settlements	(677)	(276)
Projected benefit obligation – end of year	$ 120,038	$ 122,165

(1) Service costs include cost of living adjustments on curtailed plans.

Change in plan assets *(U.S. dollars in thousands)*	2016	2015
Fair value of plan assets – beginning of year	$ 79,402	$ 49,281
Fair value of plan assets acquired due to Catlin Acquisition	—	33,131
Actual return on plan assets	8,499	(119)
Employer contributions	2,077	1,775
Benefits and expenses paid	(4,577)	(3,305)
Foreign currency gains / (losses)	(8,149)	(1,361)
Fair value of plan assets – end of year	$ 77,252	$ 79,402
Funded status – end of year	$ (42,786)	$ (42,763)
Accrued pension liability	$ 42,786	$ 42,763

The components of the net benefit cost for the years ended December 31, 2016 and 2015 are as follows:

Components of net benefit cost *(U.S. dollars in thousands)*	2016	2015
Service cost	$ 1,701	$ 1,494
Interest cost	5,126	4,381
Expected return on plan assets	(4,357)	(3,903)
Amortization of net actuarial loss	1,705	1,617
Net benefit cost	$ 4,175	$ 3,589

Assumptions - All Plans

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:

	2016			2015		
	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	4.25%	2.74%	1.33%	3.91%	3.70%	2.42%
Expected long-term rate of return on plan assets	6.00%	2.77%	N/A	6.00%	3.48%	N/A
Rate of compensation increase	N/A	3.62%	2.50%	N/A	3.96%	2.50%
Benefit Obligation – Weighted-average assumptions						
Discount rate	4.04%	2.76%	1.33%	4.25%	3.70%	2.42%
Rate of compensation increase	N/A	2.50%	2.50%	N/A	3.96%	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 - All Plans

The U.S. Plan assets at December 31, 2016 and 2015 consist of three mutual funds. The first fund seeks long-term capital appreciation. The fund invests primarily in Equity, Large Capital and Large Company Portfolio securities as well as Emerging Markets Assets.

The second fund invests primarily in quality corporate and U.S. governmental bonds. The fund employs a high total investment return through a combination of current income and capital appreciation.

The third fund seeks to outperform longer-duration benchmarks without excess volatility by investing primarily in longer duration, investment grade corporate and sovereign bonds.

The fair value of the U.S. Plan assets at December 31, 2016 and 2015 was $38.7 million and $36.7 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 the Company's assets as set out in Note 8, "Fair Value Measurements.”

The U.K. pension plan assets, including those acquired as part of the Contribution of Catlin, 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 plans' assets and the fair value of each major category of plan assets at December 31, 2016 and 2015, 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 plans and the expected rates of return were as follows:

(U.S. dollars in thousands, except percentages)	**Expected Return on Assets for 2016**	**Fair Value at December 31, 2016**	**Expected Return on Assets for 2015**	**Fair Value at December 31, 2015**
Equities ad Growth funds	5.7%	$ 9,122	6.2%	$ 7,893
Gilts	2.4%	15,459	2.4%	17,856
Corporate Bonds	3.3%	13,850	3.4%	16,915
Other (cash)	0.5%	89	1.8%	52
Total market fair value of assets		$ 38,520		$ 42,716

Funding / Expected Cash Flows - U.S. Plan

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, 2017, the U.S. defined benefit plans expect to make contributions of $1.4 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
2017	$ 1,029	$ 353	$ 1,382
2018	$ 1,057	$ 353	$ 1,410
2019	$ 1,226	$ 450	$ 1,676
2020	$ 1,389	$ 467	$ 1,856
2021	$ 1,683	$ 502	$ 2,185
2021-2026	$ 10,753	$ 2,823	$ 13,576

Funding - U.K. Plan

The Company's U.K. plan administered for employees who joined prior to the Contribution of Catlin, is subject to triennial funding valuations, the most recent of which was conducted as of June 30, 2015 and was reported in 2016. The $1.0 million deficit (calculated on a realistic basis) is being funded over a 4-year period.

With respect to the U.K. plan assumed as part of the Contribution of Catlin, the most recent funding valuation was prepared as at October 1, 2013. No contributions were required following that valuation. During 2017, it is expected that no contributions will be paid to the plan.

18. 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 12, "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, 2016 and 2015. 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 backed 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 two years ended December 31, 2016 and 2015, 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)	2016	2015
AON Corporation and subsidiaries	18%	18%
Marsh & McLennan Companies	18%	19%
Willis Group and subsidiaries	11%	13%

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 two years ended December 31, 2016 and 2015.

(b) Other Investments

The Company has committed to invest in certain private equity and private credit limited partnerships, limited liability companies or similar structures. At December 31, 2016, the Company has unfunded commitments with these entities totaling $59.3 million over a weighted average period of 4.8 years.

(c) Investments in Affiliates

The Company has committed to invest in certain private equity and private credit limited partnerships, limited liability companies or similar structures where it accounts for its holdings in these structures under the equity method. At December 31, 2016, the Company has unfunded commitments, with these entities totaling to $237.1 million over a weighted average period of 4.9 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, 2016 and 2015 was approximately $68.0 million and $71.1 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)*		
2017	$	70,359
2018		62,590
2019		57,030
2020		51,566
2021		47,738
2022-2031		96,602
Total minimum future rentals	$	385,885

In 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 net of accumulated depreciation of $55.5 million and $73.4 million, a capital lease liability of $89.9 million and $113.8 million, and a deferred gain liability of $16.9 million and $22.3 million related to the sale and leaseback at December 31, 2016 and 2015, respectively. The gain is being amortized to income in line with the amortization of the asset. The future minimum lease payments annually for the next five years are noted in the following table. as well as the aggregate for beyond five years. The total future minimum lease payments in the aggregate are expected to be $131.3 million.

Year Ended December 31, *(U.S. dollars in thousands)*		
2017	$	9,998
2018		10,248
2019		10,504
2020		10,767
2021		11,036
2022-2031		78,736
Total minimum future lease payments	$	131,289

(e) Tax Matters

Neither the Company 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 would be 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, 2016 and 2015, $2.3 billion and $2.5 billion of letters of credit were outstanding, of which 48.6% and 50.9%, 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, 2016.

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 other than claims proceedings, 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, 2016, no such disclosures were considered necessary.

(h) Financial Guarantee Exposures

The Company's outstanding financial guarantee contracts at December 31, 2016 provided credit support for a variety of collateral types with the exposures constituting an aggregate amount of $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 financial institutions. At December 31, 2016 and December 31, 2015, the total gross claim liability recorded was nil and the contracts had a weighted average contractual term to maturity of 23.2 years and 24.2 years, respectively.

In February 2017, the Company negotiated the termination of these final two exposures. The Company will not recognize any insurance costs and will not realize any security valuation losses as a result of these terminations.

19. Share Capital

a) Authorized and Issued

The authorized share capital of XLB is 15,000,000, par value $0.10 each. On April 27, 2016 as part of a strategic business decision, the Company issued a further 2,500,000 shares, par value $0.10 each and hence the total issued and outstanding shares as at December 31, 2016 and December 31, 2015 was 12,500,000 and 10,000,000, respectively.

The following table is a summary of common shares issued and outstanding:

(in thousands)	**2016**	**2015**
Balance – beginning of year	1,000	1,000
Issue of shares	250	—
Balance – end of year	1,250	1,000

b)Acquisition of Non-controlling Preferred Shares

In connection with the contribution of Catlin described in Note 3(f), "Acquisitions, Disposals and Contribution from Parent- Contribution of Catlin," the Company received 0.6 million non-cumulative perpetual preferred shares issued by Catlin-Bermuda, par value of $0.01 per share, with liquidation preference of $1,000 per share, plus declared and unpaid dividends ("CICL Prefs"). Dividends at a rate of 7.249 percent on the liquidation preference are payable semi-annually on January 19 and July 19 in arrears as and when declared up to but not including January 2017. Thereafter, if the CICL Prefs have not yet been redeemed, dividends will be payable quarterly at a rate equal to 2.975 percent plus the three-month LIBOR rate of the liquidation preference. The fair value of the outstanding CICL Prefs on the date of the contribution of Catlin was $562.3 million, which was based on the last trading price of such securities prior to the contribution of Catlin.

20. Dividends and Return of Surplus

The Company paid dividends to its parent, EXEL Holdings Limited ("EXEL"), an intermediate holding company, of $0.4 billion in 2016, $0.2 billion was cash and $0.2 billion was investments. The Company paid a dividend to its parent, EXEL of $2.1 billion in 2015, $2.0 billion was cash and $0.1 billion was investments.

In addition, the Company returned $0.9 billion of additional paid in capital to EXEL during 2016.

21. 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	Total
Balance, net of tax, December 31, 2014	$ 1,338,666	$ (24,435)	$ (12,462)	$ (20,789)	$ 1,280,980
OCI before reclassifications	(468,414)	—	(32,067)	(6,100)	(506,581)
Amounts reclassified from AOCI	(325,383)	8,978	—	1,145	(315,260)
Tax (benefit) expense	32,620	(442)	8,375	1,103	41,656
Net current period OCI - net of tax	$ (761,177)	$ 8,536	$ (23,692)	$ (3,852)	$ (780,185)
Balance, net of tax, December 31, 2015	$ 577,489	$ (15,899)	$ (36,154)	$ (24,641)	$ 500,795
OCI before reclassifications (1)	376,199	—	103,259	(1,333)	478,125
Amounts reclassified from AOCI	(463,014)	3,719	—	3,100	(456,195)
Tax (benefit) expense	28,537	(49)	(7,299)	(2,014)	19,175
Net current period OCI - net of tax	$ (58,278)	$ 3,670	$ 95,960	$ (247)	$ 41,105
Balance, net of tax, December 31, 2016	$ 519,211	$ (12,229)	$ 59,806	$ (24,888)	$ 541,900

(1) Included in these amounts is the impact of Shadow Adjustments. As of December 31, 2015, $274.4 million was recorded. During the year ended December 31, 2016, additional net impacts of $(62.3) million were recorded, resulting in a total cumulative net impact of Shadow Adjustments on future policy benefit reserves of $212.1 million at December 31, 2016.

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)*	**2016**	**2015**
Affected Line Item in the Statement of Income		
Unrealized gains and losses on investments:		
Net realized gains (losses) on investments sold	$ (459,979)	$ (294,915)
OTTI on investments	81,595	95,279
Net realized and unrealized gains (losses) on life retrocession embedded derivative and derivative instruments - Life Funds Withheld Assets	(51,100)	(125,747)
Income (loss) from investment fund affiliates	(33,530)	—
Total before tax	$ (463,014)	$ (325,383)
Provision (benefit) for income tax	10,084	7,597
Net of tax	$ (452,930)	$ (317,786)
OTTI losses recognized in OCI:		
Net realized gains (losses) on investments sold	$ 4,158	$ 8,014
OTTI on investments transferred to (from) OCI	(439)	964
Total before tax	$ 3,719	$ 8,978
Provision (benefit) for income tax	—	(87)
Net of tax	$ 3,719	$ 8,891
Underfunded Pension Liability:		
Operating expenses	$ 3,100	$ 1,145
Provision (benefit) for income tax	(1,085)	(401)
Net of tax	$ 2,015	$ 744
Total reclassifications for the period, gross of tax	$ (456,195)	$ (315,260)
Tax (benefit) expense	8,999	7,109
Total reclassifications for the period, net of tax	$ (447,196)	$ (308,151)

22. Taxation

The Company conducts global operations through its subsidiaries in various jurisdictions around the world, including but not limited to Bermuda, the U.S., the U.K., Switzerland, Ireland, Germany, Italy, Spain, and France. The Company is subject to tax in accordance with the relevant tax laws and regulations governing taxation in the jurisdictions in which it operates.

The Company, and its Bermuda subsidiaries, are not subject to any income 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, as well as premium, excise and other taxes applicable to U.S. corporations. The U.S. related provision for federal income taxes has been determined under the principles of the consolidated tax provisions of the IRS Code and Regulations thereunder.

With the exception of the U.S., deferred income taxes have not been accrued with respect to certain undistributed earnings of subsidiaries located outside of Bermuda. 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 the U.S., and accordingly, the Company provides for withholding taxes arising in respect of current period U.S. earnings. No withholding taxes are accrued with respect to the earnings of the Company's subsidiaries arising outside the U.S. However, if there is a change in tax law, interpretation of existing law, or change in way in which the Company conducts its business, then the company would accrue the required withholding tax.

The Company's current corporate structure is such that distribution of earnings from subsidiaries located outside of the United States 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 financial results.

Jurisdiction	Tax Years
U.S.	2013 - 2015
Ireland	2008 - 2009
U.K.	2014
France	2013 - 2014
Spain	2011 - 2012

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.	2013 - 2016
Ireland	2008 - 2016
U.K.	2014 - 2016
Germany	2014 - 2016
Switzerland	2011 - 2016
France	2013 - 2016
Spain	2011 - 2016
Italy	2012 - 2016

The Company’s income (loss) before income tax and non-controlling interests for the years ended December 31, 2016 and 2015 was distributed between U.S. and non-US. jurisdictions as follows:

Income (loss) before income tax: *(U.S. dollars in thousands)*	2016	2015
U.S.	$ 68,970	$ (5,931)
Non U.S.	770,833	1,462,960
Total	$ 839,803	$ 1,457,029

The income tax provisions for the years ended December 31, 2016 and 2015 were as follows:

(U.S. dollars in thousands)	2016	2015
Current expense: (benefit)		
U.S.	$ (12,201)	$ (22,698)
Non U.S.	59,282	67,135
Total current expense (benefit)	$ 47,081	$ 44,437
Deferred expense (benefit):		
U.S.	$ 8,502	$ (63,491)
Non U.S.	(13,203)	(757)
Total deferred expense (benefit)	$ (4,701)	$ (64,248)
Total tax expense (benefit)	$ 42,380	$ (19,811)

The applicable statutory tax rates for the current year of the most significant jurisdictions contributing to the overall taxation of the Company are:

Jurisdiction	Applicable Statutory Corporate Income Tax Rates
Ireland (1)	12.50%
Bermuda	—%
U.S.	35.00%
U.K.	20.00%
Switzerland (2)	21.15%
Germany (3)	15.00%
France (4)	33.33%

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(1) The 12.5% statutory corporate income tax rate applies to active income from the conduct of a trade in Ireland. For passive income or income from other defined activities the rate increases to 25%.

(2) Represents the combined federal and cantonal rate primarily applicable to XL Catlin Swiss entities.

(3) The statutory corporate income tax rate is 15% . However, including applicable surcharges and local trade tax, which can vary by location, would increase the combined statutory rate to approximately 33%.

(4) The statutory corporate income tax rate is 33.33%. However, with the mandatory social surcharge, the combined statutory rate would increase to 34.43%.

The expected tax provision in the table below 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 for the years ended December 31, 2016 and 2015 is provided below:

(U.S. dollars in thousands)	2016	2015
Expected tax (benefit) provision	$ (15,467)	$ (19,997)
Permanent differences:		
Non-taxable (income) loss	(19,937)	(21,650)
Revision to prior year estimates	(24,121)	7,401
State, local and foreign taxes	23,407	26,850
Valuation allowance	(9,109)	(11,800)
Net allocated investment income	5,990	(405)
Stock awards	543	(433)
Non-deductible expenses	42,900	31,970
Other investment related adjustments	(905)	2,075
Adjustments related to GreyCastle Life Retro Arrangements	21,682	(35,045)
Change in tax rates	(6,233)	(11,877)
Uncertain tax positions	23,630	13,100
Total tax expense (benefit)	$ 42,380	$ (19,811)

Significant components of the Company's deferred tax assets and liabilities at December 31, 2016 and 2015 were as follows:

(U.S. dollars in thousands)	2016	2015
Deferred tax asset:		
Net unpaid loss reserve discount	$ 96,357	$ 111,584
Net unearned premiums	95,676	80,434
Compensation liabilities	95,372	94,013
Net operating losses	263,106	123,800
Investment adjustments	14,030	14,399
Pension	6,816	10,254
Bad debt reserve	12,418	7,425
Amortizable goodwill	967	5,396
Net unrealized depreciation on investments	5,915	5,051
Stock options	5,369	11,426
Depreciation	26,098	13,104
Net realized capital losses	89,568	98,756
Deferred intercompany capital losses	18,221	26,164
Untaxed Lloyd's result	—	3,769
Deferred acquisition costs	17,820	31,133
Currency translation adjustments	—	6,280
Tax Credits	71,651	5,047
Other	32,514	19,929
Deferred tax asset, gross of valuation allowance	$ 851,898	$ 667,964
Valuation allowance	301,346	213,441
Deferred tax asset, net of valuation allowance	$ 550,552	$ 454,523
Deferred tax liability:		
Net unrealized appreciation on investments	$ 21,500	$ 51,010
Unremitted earnings	—	3,739
Deferred acquisition costs	10,858	8,308
Currency translation adjustments	12,813	1,210
Regulatory reserves	116,500	64,352
Net unearned premiums	4,380	—
Investment adjustments	5,269	6,373
Untaxed Lloyd's result	11,940	—
Depreciation	15,601	11,500
Syndicate capacity	82,106	92,756
Intangible asset	32,508	40,126
Other	3,806	13,486
Deferred tax liability	$ 317,281	$ 292,860
Net Deferred Tax Asset	$ 233,271	$ 161,663

The deferred tax asset and deferred tax liability balances presented above represent the gross deferred tax asset and liability balances across each tax jurisdiction. As disclosed on the consolidated balance sheets, the deferred tax asset balances of $310.5 million and $282.3 million at December 31, 2016 and 2015, respectively, and deferred tax liability balances of $77.3 million and $120.6 million at December 31, 2016 and 2015, respectively, include netting of certain deferred tax assets and liabilities within a tax jurisdiction to the extent such netting is consistent with ASC 740 "Income Taxes".

During 2016, the Company recorded net deferred tax assets related to certain branch operations that were previously deemed worthless and not disclosed. Due to changes in the global operating environment, the company now believes that, while unlikely, these net deferred tax assets may have future value. As such, the company has updated its year end deferred tax balances to reflect these net deferred tax assets with an offsetting valuation allowance. There is no net impact to equity or reported tax expense resulting from this change in disclosure.

At December 31, 2016 and 2015, the valuation allowance of $301.3 million and $213.4 million, respectively, related primarily to net operating loss and realized capital loss carryforwards in the following major tax jurisdictions:

Jurisdiction *(U.S. dollars in thousands)*	**2016**	**2015**
Ireland	$ 30,623	$ 30,537
U.S.	92,999	106,624
U.K.	32,528	46,732
Switzerland	15,025	7,818
Other	130,171	21,730
Valuation Allowance Total	$ 301,346	$ 213,441

The increase in the valuation allowance in 2016 of $87.9 million was primarily driven by the valuation allowances recorded on branch operations, as noted above. This increase was partially offset by a decrease in the valuation allowance related to U.K. losses based on filing positions taken on the 2015 tax returns, and a reduction in the valuation allowance held against U.S. capital loss carry-forwards that expired in 2016.

Management believes it is more likely than not that the tax benefit associated with the group's deferred tax assets, not offset by a valuation allowance, will be realized.

At December 31, 2016, the Company had total net operating loss carryforwards of $1.1 billion, with an associated net deferred tax asset of $117.1 million ($263.1 million gross deferred tax asset with an offsetting valuation allowance of $146.0 million).

At December 31, 2016, the Company had U.S. net operating loss carryforwards of $108.0 million, with an associated net deferred tax asset of $37.0 million ($37.8 million gross deferred tax asset with an offsetting valuation allowance of $0.8 million), which were primarily generated during 2015. Of this amount, approximately $47.0 million are subject to restrictions on timing and utilization under §382 of the IRS Code. Management has reviewed historical taxable income and future taxable income projections for its U.S. group and has determined that in its judgment, all of the U.S. net operating losses will more likely than not be realized as reductions to future taxable income prior to expiration through 2036.

At December 31, 2016, the Company had net operating loss carryforwards in the U.K. of $203.3 million, with an associated net deferred tax asset of $12.8 million ($39.0 million gross deferred tax asset with an offsetting valuation allowance of $26.2 million). These operating loss carryforward have no expiration.

At December 31, 2016, the Company had net operating loss carryforwards in Switzerland of $200.1 million, with an associated net deferred tax asset of $8.8 million ($23.7 million gross deferred tax asset with an offsetting valuation allowance of $14.9 million). Losses of $5.3 million and $4.0 million will expire in 2017 and 2018, respectively, with the remaining $190.8 million expiring through 2023.

At December 31, 2016, the Company had net operating loss carryforwards in other jurisdictions of $629.1 million, with an associated net deferred tax asset of $58.5 million ($162.6 million gross deferred tax asset with an offsetting valuation allowance of $104.1 million). Losses of $609.1 million have no expiration date and the remaining losses will expire through 2028.

At December 31, 2016, the Company had capital loss carryforwards of $293.5 million, with no associated net deferred tax asset ($89.6 million gross deferred tax asset with an offsetting valuation allowance of $89.6 million).

At December 31, 2016, the Company had U.S. realized capital loss carryforwards of $165.5 million, with no associated net deferred tax asset ($57.9 million gross deferred tax asset with an offsetting valuation allowance of $57.9 million). The five year carryforward limitation for the utilization of realized capital losses applies to this balance. Losses of $59.1 million will expire at the end of 2018 with another $106.3 million of realized capital losses expiring in future years through 2021.

At December 31, 2016, the Company had capital loss carryforwards in Ireland of $122.1 million with no associated net deferred tax asset ($30.5 million gross deferred tax asset with an offsetting valuation allowance of $30.5 million) and in the U.K of $5.9 million, with no associated net deferred tax asset ($1.1 million gross deferred tax asset with an offsetting valuation allowance of $1.1 million). Although these capital losses may be carried forward indefinitely, due to the uncertainty surrounding any future capital gain income generation within these specific entities, a full valuation allowance is held in respect of these losses.

At December 31, 2016, the Company had total tax credits of $71.7 million comprised of $32.3 million of U.S. Alternative Minimum Tax Credits, that do not expire, $5.6 million of U.S. foreign tax credits that expire through 2025, $3.1 million of U.S.Research and Development tax credits which expire through 2034, and $30.7 million of U.K. foreign tax credits that do not expire.

Shareholders' equity at December 31, 2016 and 2015 reflected cumulative tax benefits of $10.6 million and $9.2 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.

For the years ended December 31, 2016 and 2015, the Company had unrecognized tax benefits of $97.8 million and $80.6 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 unrecognized tax benefits during 2017.

The following table presents a reconciliation of the Company's unrecognized tax benefits:

(U.S. dollars in thousands)	2016	2015
Unrecognized tax benefits, beginning of the year	$ 80,590	$ 37,190
Increases for tax positions taken during the year	25,250	20,370
Increases for tax positions taken in prior years	11,700	38,650
Decreases for tax positions taken in prior years	(6,440)	(4,850)
Decreases for lapse of the applicable statute of limitations	(13,320)	(10,770)
Unrecognized tax benefits, end of year	$ 97,780	$ 80,590

The Company's policy is to recognize any interest and penalties related to unrecognized tax benefits as a component of tax expense. For the years ended December 31, 2016 and 2015 the Company had accrued interest and penalties of $0.9 million and $0.4 million, respectively.

23. Statutory Financial Data

The Company's ability to pay dividends or return capital from shareholders' equity is limited by applicable laws and regulations of the various jurisdictions in which the Company's principal operating subsidiaries operate, certain additional required regulatory approvals and financial covenants contained in the Company's credit facilities. The payment of dividends to XLB 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 U.S. 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, 2016 and 2015 are summarized below:

	Bermuda (1)		U.S. (2)		U.K., Europe and Other	
(U.S. dollars in thousands)	2016	2015	2016	2015	2016	2015
Required statutory capital and surplus	$ 6,351,874	$ 7,722,123	$ 822,651	$ 747,313	$ 4,320,140	$ 4,445,247
Actual statutory capital and surplus (3)	$ 12,333,870	$ 11,112,176	$ 2,362,827	$ 2,234,767	$ 5,201,602	$ 6,054,122

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(1) Required statutory capital and surplus at December 31, 2016 represents 100% Bermuda Solvency Capital Requirement ("BSCR") level for the Company, 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, 2016 and 2015 is summarized below:

(U.S. dollars in thousands)	2016	2015
Bermuda	$ 724,711	$ 1,513,924
U.S.	$ 96,481	$ 17,574
U.K., Europe and Other	$ 366,708	$ (125,758)

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 Company and 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 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 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, XLB and Catlin-Bermuda, under the BSCR are highlighted in the aggregate 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, 2016 and 2015, the maximum dividend that XLB's Bermuda Class 4 insurers could pay, without a signed affidavit, having met minimum levels of statutory capital and surplus and liquidity requirements, was approximately $3.2 billion and $2.8billon, 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

The Company has two lead property and casualty subsidiaries in the U.S., XLRA and Catlin Specialty Insurance Company ("CSIC"), which are domiciled in the States of New York and Delaware, respectively. Both XLRA and CSIC are the lead companies in their respective insurance pools. Including the pool leaders, these insurance pools include seven and three P&C companies, respectively. The Company also has another property and casualty subsidiary, T.H.E. Insurance Company ("THE"), a Louisiana-domiciled insurer which was acquired as part of the transaction described in Note 3(d), "Acquisitions, Disposals and Contribution from Parent - Allied Acquisition, and exists outside of the existing pools at December 31, 2016.

Unless permitted by the New York Superintendent of Financial Services, 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 laws also provide that any distribution that is a dividend may only be paid out of statutory earned surplus. At December 31, 2016 and 2015, XLRA had statutory earned surplus of $66.9 million and $31.7 million, respectively. At December 31, 2016, XLRA's statutory policyholders' surplus was $2.1 billion, and the maximum amount of dividends XLRA can declare and pay in 2017, without prior regulatory approval, is $66.9 million. At December 31, 2016 and 2015, one and two, respectively, of the seven P&C members of the XLRA insurance pool had a statutory earned deficit.

Unless permitted by the Insurance Commissioner of the State of Delaware, CSIC cannot declare or distribute any dividend to shareholders during any twelve month period that exceeds the greater of 10 percent of statutory policyholders' surplus or 100 percent of net income excluding realized gains. The Delaware State insurance laws also provide that any distribution that is a dividend may only be paid out of statutory earned surplus. At December 31, 2016, CSIC had a statutory earned surplus of $3.4 million, and an earned deficit at December 31, 2015. At December 31, 2016, CSIC's statutory policyholders' surplus was $234.2 million, and no dividends can be declared and paid in 2017 without prior regulatory approval. At December 31, 2016, two of the P&C members of the CSIC insurance pool had a statutory earned deficit.

Unless permitted by the Insurance Commissioner of the State of Louisiana, THE cannot declare or distribute any dividend to shareholders during any twelve month period that exceeds the greater of 10 percent of statutory policyholders' surplus or 100 percent of net income excluding realized gains. At December 31, 2016, THE's statutory policyholders' surplus was $52.3 million, and no dividends can be declared and paid in 2017 without regulatory approval.

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 the U.K. ($1.2 billion at December 31, 2016), Switzerland ($1.5 billion at December 31, 2016) and Ireland ($0.9 billion at December 31, 2016). The Company also has sufficient capital available to meet Funds at Lloyd's requirements of approximately $1.5 billion.

Other Restrictions

The ability to declare and pay dividends may also be restricted by financial covenants in the Company’s credit facilities. The Company was in compliance with all covenants at December 31, 2016, and the Company remains in compliance.

24. Subsequent Events

On March 1,2017 XL Group Ltd, announced the estimated impact of the recent UK Ministry of Justice's announcement of a significant decrease of the discount rate used to calculate lump sum awards in UK bodily injury cases, known as the Ogden Rate, from +2.5% to -0.75%, a decrease of 325 basis points and the first rate change since 2001. The new rate became effective on March 20, 2017.

The Company estimates that the pre-tax impact of the rate change on the Company's carried reserves for relevant lines of business is an increase of approximately $75 million to be recognized in the first quarter of 2017, primarily related to the Company's UK motor business in the Reinsurance operations. Classes of business impacted by this rate change are UK motor bodily injury, UK employer's liability, and UK public liability. Impacts on the Insurance operations are expected to be modest due to the low level of UK bodily injury claims in the Company's portfolio as well as reinsurance protections.