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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from ____ to ____

Commission file number 1-10804

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

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

No. 1 Hatch Street Upper, 4th Floor, Dublin 2, Ireland
(Address of principal executive offices and zip code)
+353 (1) 405-2033
(Registrant's telephone number, including area code)

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

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

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

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

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

As of August 4, 2010, there were 342,010,919 outstanding Class A Ordinary Shares, $0.01 par value per share, of the registrant.

XL GROUP PUBLIC LIMITED COMPANY

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

XL CAPITAL LTD

CONSOLIDATED BALANCE SHEETS

(U.S. dollars in thousands, except share amounts)	(Unaudited) June 30, 2010	December 31, 2009
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost: 2010, $27,995,736; 2009, $28,798,504)	$ 27,681,839	$ 27,512,032
Equity securities, at fair value (cost: 2010, $16,091; 2009, $12,344)	19,975	17,779
Short-term investments, at fair value (amortized cost: 2010, $1,544,344; 2009, $1,767,197)	1,552,301	1,777,360
Total investments available for sale	29,254,115	29,307,171
Fixed maturities, held to maturity at amortized cost (fair value: 2010, $504,726; 2009, $530,319)	$ 468,738	$ 546,067
Investments in affiliates	1,080,570	1,185,604
Other investments	858,636	783,189
Total investments	31,662,059	31,822,031
Cash and cash equivalents	3,801,194	3,643,697
Accrued investment income	326,297	350,055
Deferred acquisition costs	650,937	654,065
Ceded unearned premiums	783,132	711,875
Premiums receivable	2,756,348	2,597,602
Reinsurance balances receivable	236,054	374,844
Unpaid losses and loss expenses recoverable	3,454,004	3,584,028
Net receivable from investments sold	—	84,617
Goodwill and other intangible assets	835,865	845,129
Deferred tax asset	169,590	240,425
Other assets	646,939	717,864
Total assets	$ 45,322,419	$ 45,626,232
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss expenses	$ 20,153,892	$ 20,823,524
Deposit liabilities	2,252,124	2,208,699
Future policy benefit reserves	4,892,612	5,490,119
Unearned premiums	3,842,364	3,651,310
Notes payable and debt	2,467,392	2,451,417
Reinsurance balances payable	327,064	378,887
Net payable for investments purchased	2,522	36,979
Deferred tax liability	82,748	46,557
Other liabilities	722,569	923,650
Total liabilities	$ 34,743,287	$ 36,011,142
Commitments and Contingencies		
Redeemable Series C preference ordinary shares, 20,000,000 authorized, par value $0.01 Issued and outstanding: (2010, 2,876,000; 2009, 7,306,920)	$ 71,900	$ 182,673
Shareholders' Equity:		
Noncontrolling interest in equity of consolidated subsidiaries	$ 2,228	$ 2,305
Series E preference ordinary shares, 1,000,000 authorized, par value $0.01 Issued and outstanding: (2010, 1,000,000; 2009, 1,000,000)	10	10
Class A ordinary shares, 999,990,000 authorized, par value $0.01 Issued and outstanding: (2010, 342,010,919; 2009, 342,118,986)	3,421	3,421
Additional paid in capital	10,494,675	10,474,688
Accumulated other comprehensive income (loss)	(338,733)	(1,142,467)
Retained earnings	345,631	94,460
Total shareholders' equity	$ 10,507,232	$ 9,432,417
Total liabilities, redeemable preference ordinary shares and shareholders' equity	$ 45,322,419	$ 45,626,232

See accompanying Notes to Unaudited Consolidated Financial Statements

XL CAPITAL LTD

CONSOLIDATED STATEMENTS OF INCOME

(U.S. dollars in thousands, except share amounts)	(Unaudited) Three Months Ended June 30, 2010	(Unaudited) Three Months Ended June 30, 2009	(Unaudited) Six Months Ended June 30, 2010	(Unaudited) Six Months Ended June 30, 2009
Revenues:				
Net premiums earned	$ 1,302,761	$ 1,429,700	$ 2,671,246	$ 2,881,221
Net investment income	302,594	328,348	610,918	676,314
Realized investment gains (losses):				
Net realized gains (losses) on investments sold	(3,979)	4,520	42	37,623
Other-than-temporary impairments on investments	(26,736)	(115,620)	(87,250)	(400,660)
Other-than-temporary impairments on investments transferred to other comprehensive income	(30,671)	30,670	(10,354)	30,670
Total net realized gains (losses) on investments	(61,386)	(80,430)	(97,562)	(332,367)
Net realized and unrealized gains (losses) on derivative instruments	(19,896)	969	(40,376)	(438)
Net income (loss) from investment fund affiliates	19,084	37,086	27,262	10,193
Fee income and other	9,535	9,824	17,953	21,982
Total revenues	$ 1,552,692	$ 1,725,497	$ 3,189,441	$ 3,256,905
Expenses:				
Net losses and loss expenses incurred	$ 747,165	$ 779,628	$ 1,639,365	$ 1,569,911
Claims and policy benefits	123,375	174,588	247,118	332,547
Acquisition costs	180,560	223,272	381,697	441,491
Operating expenses	244,867	264,247	473,975	532,634
Exchange (gains) losses	(32,276)	145,221	(53,359)	120,597
Interest expense	49,149	54,198	98,219	115,539
Loss on termination of guarantee	23,500	—	23,500	—
Amortization of intangible assets	464	464	929	929
Total expenses	$ 1,336,804	$ 1,641,618	$ 2,811,444	$ 3,113,648
Income (loss) before income tax and income (loss) from operating affiliates	$ 215,888	$ 83,879	$ 377,997	$ 143,257
Provision for income tax	42,976	16,045	72,812	61,998
Income (loss) from operating affiliates	21,013	17,667	32,619	7,339
Net income	$ 193,925	$ 85,501	$ 337,804	$ 88,598
Non-controlling interest in net (income) loss of subsidiary	80	40	81	40
Net income attributable to XL Capital Ltd	$ 194,005	$ 85,541	$ 337,885	$ 88,638
Preference share dividends	(2,194)	(5,592)	(34,694)	(42,126)
Gain on redemption of Series C Preference Ordinary Shares	—	—	16,616	211,816
Net income attributable to ordinary shareholders	$ 191,811	$ 79,949	$ 319,807	$ 258,328
Weighted average ordinary shares and ordinary share equivalents outstanding – basic (in thousands)	342,056	342,154	342,049	339,155
Weighted average ordinary shares and ordinary share equivalents outstanding – diluted (in thousands)	342,878	342,468	342,781	339,262
Earnings per ordinary share and ordinary share equivalent - basic	$ 0.56	$ 0.23	$ 0.93	$ 0.76
Earnings per ordinary share and ordinary share equivalent - diluted	$ 0.56	$ 0.23	$ 0.93	$ 0.76

See accompanying Notes to Unaudited Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(U.S. dollars in thousands)	(Unaudited) Three Months Ended June 30, 2010	(Unaudited) Three Months Ended June 30, 2009	(Unaudited) Six Months Ended June 30, 2010	(Unaudited) Six Months Ended June 30, 2009
Net income attributable to XL Capital Ltd	$ 194,005	$ 85,541	$ 337,885	$ 88,638
Impact of adoption of new authoritative other-than-temporary (“OTTI”) guidance, net of tax	—	(229,670)	—	(229,670)
Change in net unrealized gains (losses) on investments, net of tax	324,308	1,115,165	880,332	326,480
Change in other-than-temporary impairment losses recognized in other comprehensive income, net of tax	48,095	(25,595)	31,637	(25,595)
Change in underfunded pension liability	85	(250)	3,567	(316)
Change in value of cash flow hedge	110	110	220	218
Foreign currency translation adjustments, net	(75,823)	184,893	(108,308)	89,639
Change in net unrealized gain (loss) on future policy benefit reserves	(962)	(5,487)	(3,714)	2,007
Comprehensive income (loss)	$ 489,818	$ 1,124,707	$ 1,141,619	$ 251,401

See accompanying Notes to Unaudited Consolidated Financial Statements

XL CAPITAL LTD

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(U.S. dollars in thousands)	(Unaudited) Six Months Ended June 30, 2010	(Unaudited) Six Months Ended June 30, 2009
Noncontrolling Interest in Equity of Consolidated Subsidiaries:		
Balance – beginning of year	$ 2,305	$ 1,598
Non-controlling interest share in net income (loss) of subsidiary	(81)	$ (40)
Non-controlling interest share in change in accumulated other comprehensive (income) loss	4	816
Balance – end of period	$ 2,228	$ 2,374
Series E Preference Ordinary Shares:		
Balance – beginning of year	$ 10	$ 10
Balance – end of period	$ 10	$ 10
Class A Ordinary Shares:		
Balance – beginning of year	$ 3,421	$ 3,308
Issuance of Class A ordinary shares	—	115
Exercise of stock options	1	1
Repurchase of shares	(1)	(2)
Balance – end of period	$ 3,421	$ 3,422
Additional Paid in Capital:		
Balance – beginning of year	$ 10,474,688	$ 9,792,371
Issuance of Class A ordinary shares	1,095	742,258
Repurchase of Class A ordinary shares	(1,840)	—
Dividends on Class A ordinary shares	—	(68,390)
Dividends on preference ordinary shares	—	(42,126)
Exercise of stock options, net of tax benefit	104	—
Share based compensation expense	20,628	30,869
Balance – end of period	$ 10,494,675	$ 10,454,982
Accumulated Other Comprehensive Income (Loss):		
Balance – beginning of year	$ (1,142,467)	$ (3,364,927)
Impact of adoption of new authoritative OTTI guidance, net of taxes	—	(229,670)
Change in net unrealized (losses) on investment portfolio, net of tax	863,940	319,960
Change in net unrealized (losses) gains on affiliate and other investments, net of tax	16,392	6,520
Change in OTTI losses recognized in other comprehensive income, net of tax	31,637	(25,595)
Change in underfunded pension liability	3,567	(316)
Change in value of cash flow hedge	220	218
Foreign currency translation adjustments	(108,308)	89,639
Change in net unrealized gain (loss) on future policy benefit reserves	(3,714)	2,007
Balance – end of period	$ (338,733)	$ (3,202,164)
Retained Earnings (Deficit):		
Balance – beginning of year	$ 94,460	$ (315,529)
Impact of adoption of new authoritative OTTI guidance, net of taxes	—	229,670
Net income attributable to XL Capital Ltd	337,885	88,638
Dividends on Series E preference ordinary shares	(34,694)	—
Dividends on Class A ordinary shares	(68,636)	—
Gain on redemption of Series C preference ordinary shares	16,616	211,816
Balance – end of period	$ 345,631	$ 214,595
Total Shareholders' Equity	$ 10,507,232	$ 7,473,219

See accompanying Notes to Unaudited Consolidated Financial Statements

XL CAPITAL LTD

CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars in thousands)	(Unaudited) Six Months Ended June 30, 2010	(Unaudited) Six Months Ended June 30, 2009
Cash flows (used in) provided by operating activities:		
Net income attributable to XL Capital Ltd	$ 337,885	$ 88,638
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Net realized losses on sales of investments	97,562	332,367
Net realized and unrealized losses on derivative instruments	40,376	438
Amortization of premiums (discounts) on fixed maturities	20,396	(18,267)
(Income) loss from investment and operating affiliates	(59,881)	(17,532)
Amortization of deferred compensation	15,586	19,713
Accretion of convertible debt	500	496
Accretion of deposit liabilities	51,229	23,306
Unpaid losses and loss expenses	(139,971)	(328,569)
Future policy benefit reserves	(124,805)	(45,102)
Unearned premiums	321,433	(13,572)
Premiums receivable	(300,119)	(154,816)
Unpaid losses and loss expenses recoverable	61,732	121,547
Ceded unearned premiums	(95,083)	(51,718)
Reinsurance balances receivable	132,088	165,926
Deferred acquisition costs	(21,706)	(21,422)
Reinsurance balances payable	(34,782)	(252,006)
Deferred tax asset	51,008	(26,375)
Other assets	55,262	(42,857)
Other liabilities	(155,048)	(253,383)
Other	117,365	(47,780)
Total adjustments	$ 33,142	$ (609,606)
Net cash provided by (used in) operating activities	$ 371,027	$ (520,968)
Cash flows provided by (used in) investing activities:		
Proceeds from sale of fixed maturities and short-term investments	$ 2,386,683	$ 5,140,997
Proceeds from redemption of fixed maturities and short-term investments	1,438,725	2,119,654
Proceeds from sale of equity securities	37,344	353,600
Purchases of fixed maturities and short-term investments	(3,850,644)	(7,467,848)
Purchases of equity securities	(41,026)	(18,339)
Net dispositions of investment affiliates	174,179	597,852
Other investments, net	(8,728)	(25,014)
Net cash provided by (used in) investing activities	$ 136,533	$ 700,902
Cash flows (used in) financing activities:		
Proceeds from issuance of Class A ordinary shares	$ —	$ 745,000
Repurchase of Class A ordinary shares	(1,840)	(541)
Redemption of Series C preference ordinary shares	(94,157)	(104,718)
Dividends paid on Class A ordinary shares	(68,398)	(68,372)
Dividends paid on preference ordinary shares	(38,073)	(50,178)
Deposit liabilities	(64,120)	(138,976)
Repayment of debt	—	(745,000)
Collateral received on securities lending	—	108,906
Collateral returned on securities lending	—	(351,568)
Net cash (used in) financing activities	$ (266,588)	$ (605,447)
Effects of exchange rate changes on foreign currency cash	(83,475)	61,059
Increase (decrease) in cash and cash equivalents	157,497	(364,454)
Cash and cash equivalents – beginning of period	3,643,697	4,353,826
Cash and cash equivalents – end of period	$ 3,801,194	$ 3,989,372

See accompanying Notes to Unaudited Consolidated Financial Statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation and Consolidation

Unless the context otherwise indicates, references herein to the “Company” include XL Capital Ltd and its consolidated subsidiaries.

These unaudited consolidated financial statements include the accounts of the Company and all of its subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In addition, the year-end balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. In the opinion of management, these unaudited financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement of financial position and results of operations as at the end of and for the periods presented. The results of operations for any interim period are not necessarily indicative of the results for a full year. All significant inter-company accounts and transactions have been eliminated. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates.

To facilitate period-to-period comparisons, certain reclassifications have been made to prior period consolidated financial statement amounts to conform to current period presentation. There was no effect on net income from this change in presentation.

On July 1, 2010, XL Capital Ltd changed its name to XL Group Ltd.

In addition, on July 1, 2010, XL Group plc, an Irish public limited company (“XL Ireland”), and XL Group plc (formerly, XL Capital Ltd), a Cayman Islands exempted company (“XL-Cayman”), completed a redomestication transaction in which all of the ordinary shares of XL-Cayman were exchanged for all of the ordinary shares of XL-Ireland (the “Redomestication”). As a result, XL-Cayman became a wholly owned subsidiary of XL-Ireland. On July 23, 2010, the Irish High Court approved XL Group plc’s creation of distributable reserves, subject to the completion of certain formalities under Irish Company law. These formalities are expected to be completed in early August 2010. For further detailed information on this transaction and its impacts on shareholder rights, shareholders’ equity, debt and notes outstanding and employee stock plan awards, see the Company’s Report on Form 8-K filed with the U.S. Securities and Exchange Commission on July 2, 2010.

2. Significant Accounting Policies

(a) Recent Accounting Pronouncements

In June 2009, the FASB issued final authoritative guidance over accounting for transfers of financial assets which removes the concept of a qualifying special-purpose entity from existing accounting guidance over transfers of financial assets and also removes the exception from applying guidance surrounding consolidation of variable interest entities to qualifying special-purpose entities. This new guidance was applied by the Company from January 1, 2010, however, it did not have an impact on the Company’s financial condition or results of operations.

In June 2009, the FASB issued final authoritative accounting guidance in an effort to improve financial reporting by enterprises involved with variable interest entities. This guidance retains the scope of the previous standard covering variable interest entities except, as noted above, with the addition of entities previously considered qualifying special-purpose entities. The new guidance requires an enterprise to perform an analysis to determine whether the enterprise’s variable interest or interests give it a controlling financial interest in a variable interest entity under revised guidelines that are more qualitative than under previous guidance and amends previous guidance to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. Before this update, previous guidance required reconsideration of whether an enterprise is the primary beneficiary of a variable interest entity only when specific events occurred. The new guidance also amends previous guidance to require enhanced disclosures that provide users of financial statements with more transparent information about an enterprise’s involvement with a variable interest entity. The enhanced disclosures are required for any enterprise that holds a variable interest in a variable interest entity. The content of the enhanced disclosures required by this new guidance is generally consistent with that required by the previous standards. The Company applied this new guidance from January 1, 2010, however, it did not have an impact on the Company’s financial condition and results of operations. See Note 10, “Variable Interest Entities”, for the disclosures required by this guidance.

2. Significant Accounting Policies (Continued)

(a) Recent Accounting Pronouncements (Continued)

In January 2010, the FASB issued an accounting standards update on Improving Disclosures about Fair Value Measurements. The provisions of this authoritative guidance require new disclosures about recurring and nonrecurring fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. This guidance was effective for the Company from January 1, 2010, except for the Level 3 reconciliation disclosures which are effective for annual periods beginning after December 15, 2010. This standard affects disclosures only and accordingly did not have an impact on the Company's financial condition or results of operations.

In March 2010, the FASB issued authoritative guidance relating to derivative accounting. Under this guidance, all entities that enter into contracts containing an embedded credit derivative feature related to the transfer of credit risk that is not in the form of subordination of one financial instrument to another will be affected. The guidance clarifies that the embedded credit derivative scope exception found in existing derivative guidance does not apply to such contracts. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. This guidance will be effective and applied as of July 1, 2010. The Company has investments in senior tranches of Synthetic Collateralized Debt Obligations ("CDO") as well as certain CDOs of CDO structures that hold credit default swap contracts rather than direct credit exposures. The derivative instruments held within these structures are impacted by this new guidance. The Company holds Synthetic CDOs and CDOs of CDO structures with an amortized cost of $75.3 million and net unrealized losses of $32.1 million as of June 30, 2010. Upon initial adoption of this guidance the Company will elect to apply the fair value option for impacted securities. This is expected to result in a decrease to opening retained earnings of approximately $32.1 million. Subsequent to July 1, 2010, the changes in fair value of these securities will be recorded in earnings.

3. Fair Value Measurements

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

3. Fair Value Measurements (Continued)

The following tables set forth the Company's assets and liabilities that were accounted for at fair value as of June 30, 2010 and December 31, 2009 by level within the fair value hierarchy (for further information, see Item 8, Note 2 to the Consolidated Financial Statements, "Significant Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2009):

June 30, 2010 *(U.S. dollars in thousands)* *(Unaudited)*	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Collateral and Counterparty Netting**	**Balance as of June 30, 2010**
Assets					
U.S. Government and Government-Related/Supported	$ —	$ 2,491,906	$ —	$ —	$ 2,491,906
Corporate (1)	—	10,663,540	39,676	—	10,703,216
Residential mortgage-backed securities – Agency	—	5,935,953	1,226	—	5,937,179
Residential mortgage-backed securities – Non-Agency	—	1,321,593	10,008	—	1,331,601
Commercial mortgage-backed securities	—	1,259,407	427	—	1,259,834
Collateralized debt obligations	—	12,678	686,767	—	699,445
Other asset-backed securities	—	1,165,261	22,521	—	1,187,782
U.S. States and political subdivisions of the States	—	1,140,876	—	—	1,140,876
Non-U.S. Sovereign Government, Supranational and Government-Related	—	2,926,818	3,182	—	2,930,000
Total fixed maturities, at fair value	$ —	$ 26,918,032	$ 763,807	$ —	$ 27,681,839
Equity securities, at fair value	8,042	11,933	—	—	19,975
Short-term investments, at fair value (2)	—	1,547,220	5,081	—	1,552,301
Total investments available for sale	$ 8,042	$ 28,477,185	$ 768,888	$ —	$ 29,254,115
Cash equivalents (3)	1,979,540	726,341	—	—	2,705,881
Other investments (4)	—	402,916	92,857	—	495,773
Other assets (5)(6)	—	156,701	252,921	(305,253)	104,369
Total assets accounted for at fair value	$ 1,987,582	$ 29,763,143	$ 1,114,666	$ (305,253)	$ 32,560,138
Liabilities					
Financial instruments sold, but not yet purchased (7)	$ —	$ 29,008	$ —	$ —	$ 29,008
Other liabilities (5)(6)	—	17,993	90,010	(56,976)	51,027
Total liabilities accounted for at fair value	$ —	$ 47,001	$ 90,010	$ (56,976)	$ 80,035

3. Fair Value Measurements (Continued)

December 31, 2009 *(U.S. dollars in thousands)*	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Collateral and Counterparty Netting	Balance as of December 31, 2009
Assets					
U.S. Government and Government-Related/Supported	$ —	$ 2,664,625	$ —	$ —	$ 2,664,625
Corporate (1)	—	9,788,689	10,311	—	9,799,000
Residential mortgage-backed securities – Agency	—	6,220,607	7,894	—	6,228,501
Residential mortgage-backed securities – Non-Agency	—	1,379,125	42,190	—	1,421,315
Commercial mortgage-backed securities	—	1,214,044	2,755	—	1,216,799
Collateralized debt obligations	—	507,898	190,663	—	698,561
Other asset-backed securities	—	1,129,806	38,179	—	1,167,985
U.S. States and political subdivisions of the States	—	913,473	—	—	913,473
Non-U.S. Sovereign Government, Supranational and Government-Related	—	3,398,556	3,217	—	3,401,773
Total fixed maturities, at fair value	$ —	$ 27,216,823	$ 295,209	$ —	$ 27,512,032
Equity securities, at fair value	5,621	12,158	—	—	17,779
Short-term investments, at fair value (2)	—	1,770,874	6,486	—	1,777,360
Total investments available for sale	$ 5,621	$ 28,999,855	$ 301,695	$ —	$ 29,307,171
Cash equivalents (3)	1,496,938	1,136,268	—	—	2,633,206
Other investments (4)	—	342,005	75,584	—	417,589
Other assets (5)(6)	—	117,401	185,455	(218,409)	84,447
Total assets accounted for at fair value	$ 1,502,559	$ 30,595,529	$ 562,734	$ (218,409)	$ 32,442,413
Liabilities					
Financial instruments sold, but not yet purchased (7)	$ —	$ 36,979	$ —	$ —	$ 36,979
Other liabilities (5)(6)	—	24,337	84,940	(49,319)	59,958
Total liabilities accounted for at fair value	$ —	$ 61,316	$ 84,940	$ (49,319)	$ 96,937

(1) Included within Corporate are certain floating rate medium term notes supported primarily by pools of European credit with varying degrees of leverage. The notes have a fair value of $552.6 million and $587.7 million and an amortized cost of $620.2 million and $707.9 million at June 30, 2010 and December 31, 2009, respectively. These notes allow the investor to participate in cash flows of the underlying bonds including certain residual values, which could serve to either decrease or increase the ultimate values of these notes.

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

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

(4) The Other investments balance excludes certain structured transactions including certain investments in project finance transactions, a payment obligation and liquidity financing provided to a structured credit vehicle as a part of a third party medium term note facility. These investments are carried at amortized cost that totaled $362.9 million at June 30, 2010 and $365.6 million at December 31, 2009.

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

3. Fair Value Measurements (Continued)

(6) The derivative balances included in each category above are reported on a gross basis by level with a netting adjustment presented separately in the “Collateral and Counterparty Netting” column. The Company often enters into different types of derivative contracts with a single counterparty and these contracts are covered under a netting agreement. In addition, the Company held net cash collateral related to derivative assets of approximately $254.2 million and $169.1 million at June 30, 2010 and December 31, 2009, respectively. This balance is included within cash and cash equivalents and the corresponding liability to return the collateral has been offset against the derivative asset within the balance sheet as appropriate under the netting agreement. The fair value of the individual derivative contracts are reported gross in their respective levels based on the fair value hierarchy.

(7) Financial instruments sold, but not yet purchased represent “short sales” and are included within “Net payable for investments purchased” on the balance sheet.

Level 3 Gains and Losses

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 table reflects gains and losses for the three and six month periods ended June 30, 2010 and June 30, 2009 for all financial assets and liabilities categorized as Level 3 as of June 30, 2010 and June 30, 2009, 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 June 30, 2010 and June 30, 2009. 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 the values were obtained from brokers where either significant inputs were utilized in determining the value 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. Level 3 assets also include securities for which the Company determined that current market trades represent distressed transactions, and accordingly, the Company determined fair value using certain inputs that are not observable to market participants. Transfers into or out of Level 3 primarily arise as a result of the valuations utilized by the Company changing between those provided by independent pricing services that do not contain significant unobservable inputs, and other valuations sourced from either brokers or in limited instances from internal models for certain assets, which are considered Level 3.

There were no transfers between Level 1 and Level 2 during the six month periods ending June 30, 2010 and 2009.

3. Fair Value Measurements (Continued)

Level 3 Gains and Losses (continued)

(U.S. dollars in thousands) (Unaudited)	Level 3 Assets and Liabilities Three Months Ended June 30, 2010				
	Corporate	Residential mortgage-backed securities – Agency	Residential mortgage-backed securities – Non Agency	Commercial mortgage-backed securities	Collateralized debt obligations
Balance, beginning of period	$ 9,493	$ —	$ 30,000	$ 41,655	$ 711,749
Realized gains (losses)	117	—	(2,681)	(286)	(7,930)
Movement in unrealized gains (losses)	33	—	474	(60)	(13,889)
Purchases, sales issuances and settlements, net	22,687	1,226	(1,748)	—	(467)
Transfers into Level 3	12,146	—	7,201	—	—
Transfers out of Level 3	(4,800)	—	(23,238)	(40,882)	(1,280)
Fixed maturities to short-term investments classification change	—	—	—	—	(1,416)
Balance, end of period	$ 39,676	$ 1,226	$ 10,008	$ 427	$ 686,767
Movement in total gains (losses) above relating to instruments still held at the reporting date	$ 316	$ —	$ 340	$ (54)	$ (15,385)

(U.S. dollars in thousands) (Unaudited)	Level 3 Assets and Liabilities Three Months Ended June 30, 2010 (Continued)				
	Other asset backed securities	Non-U.S. Sovereign Government and Supranationals and Government Related	Short-term Investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	$ 52,082	$ 3,242	$ 6,566	$ 83,088	$ 104,474
Realized gains (losses)	(7,742)	—	(1,146)	2,565	—
Movement in unrealized gains (losses)	5,490	(60)	(160)	1,567	53,027
Purchases, sales issuances and settlements, net	(75)	—	(717)	5,637	5,410
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	(27,234)	—	(878)	—	—
Fixed maturities to short-term investments classification change	—	—	1,416	—	—
Balance, end of period	$ 22,521	$ 3,182	$ 5,081	$ 92,857	$ 162,911
Movement in total gains (losses) above relating to instruments still held at the reporting date	$ (3,221)	$ (60)	$ (58)	$ 1,567	$ 53,027

3. Fair Value Measurements (Continued)

Level 3 Gains and Losses (continued)

(U.S. dollars in thousands) *(Unaudited)*	Level 3 Assets and Liabilities Six Months Ended June 30, 2010				
	Corporate	Residential mortgage-backed securities – Agency	Residential mortgage-backed securities – Non Agency	Commercial mortgage-backed securities	Collateralized debt obligations
Balance, beginning of period	$ 10,311	$ 7,894	$ 42,190	$ 2,755	$ 190,663
Realized gains (losses)	(4,438)	—	(5,674)	(209)	(13,174)
Movement in unrealized gains (losses)	480	—	706	16	16,636
Purchases, sales issuances and settlements, net	22,140	1,226	(844)	(706)	(14)
Transfers into Level 3	14,951	—	8,433	—	495,734
Transfers out of Level 3	(3,768)	(7,894)	(34,803)	(1,429)	(1,356)
Fixed maturities to short-term investments classification change	—	—	—	—	(1,722)
Balance, end of period	$ 39,676	$ 1,226	$ 10,008	$ 427	$ 686,767
Movement in total gains (losses) above relating to instruments still held at the reporting date	$ 599	$ —	$ 405	$ (151)	$ 15,574

(U.S. dollars in thousands) *(Unaudited)*	Level 3 Assets and Liabilities Six Months Ended June 30, 2010 (Continued)				
	Other asset backed securities	Non-U.S. Sovereign Government and Supranationals and Government Related	Short-term Investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	$ 38,179	$ 3,217	$ 6,486	$ 75,584	$ 100,515
Realized gains (losses)	(14,082)	—	(4,502)	2,565	—
Movement in unrealized gains (losses)	9,236	(102)	2,512	5,552	51,637
Purchases, sales issuances and settlements, net	4,437	—	(2,124)	9,156	10,759
Transfers into Level 3	204	67	987	—	—
Transfers out of Level 3	(15,453)	—	—	—	—
Fixed maturities to short-term investments classification change	—	—	1,722	—	—
Balance, end of period	$ 22,521	$ 3,182	$ 5,081	$ 92,857	$ 162,911
Movement in total gains (losses) above relating to instruments still held at the reporting date	$ (1,168)	$ (102)	$ 2,193	$ 5,552	$ 51,637

3. Fair Value Measurements (Continued)

Level 3 Gains and Losses (continued)

(U.S. dollars in thousands) *(Unaudited)*	Level 3 Assets and Liabilities Three Months Ended June 30, 2009				
	Corporate	Residential mortgage-backed securities – Agency	Commercial mortgage-backed securities	Collateralized debt obligations	Other asset backed securities
Balance, beginning of period	$ 31,146	$ 19,270	$ 34,933	$ 429,460	$ 61,794
Realized gains (losses)	(1,224)	(749)	(1,069)	(8,916)	507
Movement in unrealized gains (losses)	3,545	2,631	(670)	102,377	(4,509)
Purchases, sales issuances and settlements, net	(2,223)	—	(57)	(915)	—
Transfers into Level 3	1,974	174	166	993	7
Transfers out of Level 3	(11,716)	(2,388)	(14)	(19,831)	(14,458)
Fixed maturities to short-term investments classification change	(40)	—	—	—	—
Balance, end of period	$ 21,462	$ 18,938	$ 33,289	$ 503,168	$ 43,341
Movement in total gains (losses) above relating to instruments still held at the reporting date	$ 2,425	$ 2,091	$ (734)	$ 89,027	$ (4,886)

(U.S. dollars in thousands *(Unaudited)*	Level 3 Assets and Liabilities Three Months Ended June 30, 2009 (continued)			
	Non-U.S. Sovereign Government	Short-term Investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	$ 45,719	$ 13,830	$ 64,391	$ 186,448
Realized gains (losses)	912	(4,167)	—	2,823
Movement in unrealized gains (losses)	847	7,348	1,720	(73,454)
Purchases, sales issuances and settlements, net	15,975	471	(977)	4,918
Transfers into Level 3	—	188	—	—
Transfers out of Level 3	(17,960)	(4)	—	—
Fixed maturities to short-term investments classification change	(2,908)	2,948	—	—
Balance, end of period	$ 42,585	$ 20,614	$ 65,134	$ 120,735
Movement in total gains (losses) above relating to instruments still held at the reporting date	$ (775)	$ 5,485	$ 1,720	$ (73,454)

3. Fair Value Measurements (Continued)

Level 3 Gains and Losses (continued)

(U.S. dollars in thousands) (Unaudited)	Level 3 Assets and Liabilities Six Months Ended June 30, 2009				
	Corporate	Residential mortgage-backed securities – Agency	Commercial mortgage-backed securities	Collateralized debt obligations	Other asset backed securities
Balance, beginning of period	$ 62,506	$ 37,150	$ 43,811	$ 598,110	$ 121,150
Realized gains (losses)	(5,514)	(2,621)	(4,294)	(29,518)	(2,570)
Movement in unrealized gains (losses)	6,042	2,116	7,551	(19,525)	(6,789)
Purchases, sales issuances and settlements, net	(4,071)	641	(5,260)	(11,826)	(5,481)
Transfers into Level 3	1,455	200	3,082	1,044	2
Transfers out of Level 3	(38,256)	(18,548)	(11,601)	(35,117)	(62,971)
Fixed maturities to short-term investments classification change	(700)	—	—	—	—
Balance, end of period	$ 21,462	$ 18,938	$ 33,289	$ 503,168	$ 43,341
Movement in total gains (losses) above relating to instruments still held at the reporting date	$ 4,073	$ 1,970	$ 5,741	$ (36,681)	$ (9,476)

(U.S. dollars in thousands (Unaudited)	Level 3 Assets and Liabilities Six Months Ended June 30, 2009 (continued)			
	Non-U.S. Sovereign Government	Short-term Investments	Other investments	Derivative Contracts - Net
Balance, beginning of period	$ 89,152	$ 20,746	$ 65,354	$ 226,818
Realized gains (losses)	—	(2,827)	—	2,823
Movement in unrealized gains (losses)	(1,192)	3,684	(5,898)	(118,803)
Purchases, sales issuances and settlements, net	16,395	(5,073)	5,678	9,897
Transfers into Level 3	—	418	—	—
Transfers out of Level 3	(58,804)	—	—	—
Fixed maturities to short-term investments classification change	(2,966)	3,666	—	—
Balance, end of period	$ 42,585	$ 20,614	$ 65,134	$ 120,735
Movement in total gains (losses) above relating to instruments still held at the reporting date	$ (1,026)	$ 2,700	$ (5,898)	$ (118,803)

3. Fair Value Measurements (Continued)

Fixed maturities and short-term investments

During the six months ended June 30, 2010, certain CDOs that were previously classified as Level 2 due to sufficient market data being available to allow a price to be determined and provided by third party pricing vendors, were transferred to Level 3 because third party vendor prices were no longer believed to be the most appropriate pricing source, therefore, broker quotes are the primary source of the valuations for these CDOs.

In addition, at each of June 30, 2010 and 2009, certain fixed maturity securities that were previously classified as Level 3, due to a lack of available third party vendor pricing, were transferred to Level 2 as prices for these securities were provided by third party pricing vendors.

The remainder of the Level 3 assets relate to private equity investments where the nature of the underlying assets held by the investee include positions such as private business ventures and are such that significant Level 3 inputs are utilized in the valuation.

Other investments

Included within the Other Investments component of the Company’s Level 3 valuations are private investments and alternatives 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 which 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 also incorporates factors such as the most recent financial information received, the values at which capital transactions with the investee take place, and management’s judgment regarding whether any adjustments should be made to the net asset value in recording the fair value of each position. Investments in private equity and alternative funds included in Other investments utilize strategies including Arbitrage, Directional, Event Driven and Multi-style. These funds potentially have lockup and gate provisions which may limit redemption liquidity. For further details regarding the nature of Other investments and related features see Item 8, Note 11, “Other Investments” to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009.

Derivative instruments

Derivative instruments classified within Level 3 include: (i) certain interest rate swaps where the duration of the contract the Company holds exceeds that of the longest term on a market observable input, (ii) GMIB benefits embedded within a certain reinsurance contract, (iii) a put option included within the Company’s remaining contingent capital facility and (iv) credit derivatives sold providing protection on senior tranches of structured finance transactions where the value is obtained directly from the investment bank counterparty for which sufficient information regarding the inputs utilized in the valuation was not obtained to support a Level 2 classification. 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.

In addition, see Item 8, Note 2 to the Consolidated Financial Statements, “Significant Accounting Policies” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009 for a general discussion of types of assets and liabilities that are classified within Level 3 of the fair value hierarchy as well as the Company’s valuation policies for such instruments.

3. Fair Value Measurements (Continued)

Financial Instruments Not Carried at Fair Value

Authoritative guidance over disclosures about 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 amount differs from the estimated fair values:

(U.S. dollars in thousands) *(Unaudited)*	As of June 30, 2010 Carrying Value	As of June 30, 2010 Fair Value	As of December 31, 2009 Carrying Value	As of December 31, 2009 Fair Value
Fixed maturities, held to maturity	$ 468,738	$ 504,726	$ 546,067	$ 530,319
Other investments – structured transactions	$ 362,862	$ 345,095	$ 365,600	$ 341,352
Financial Assets	$ 831,600	$ 849,821	$ 911,667	$ 871,671
Deposit liabilities	$ 2,252,124	$ 2,233,725	$ 2,208,699	$ 2,245,961
Notes payable and debt	2,467,392	2,469,786	2,451,417	2,504,386
Financial Liabilities	$ 4,719,516	$ 4,703,511	$ 4,660,116	$ 4,750,347
Redeemable series C preference ordinary shares	$ 71,900	$ 49,611	$ 182,673	$ 137,918

The Company historically participated in structured transactions which include cash loans supporting project finance transactions, providing liquidity facility financing to structured project deals and an investment in a payment obligation with an insurance company. These transactions are carried at amortized cost. The fair value of these investments held by the Company is determined through use of internal models utilizing reported trades, benchmark yields, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data.

Deposit liabilities include obligations under structured insurance and reinsurance transactions as well as funding agreements issued. For purposes of fair value disclosures, the Company determines the fair value of the deposit liabilities by assuming a discount rate equal to the appropriate U.S. Treasury rate plus 223.8 basis points and the appropriate U.S. Treasury Rate plus 108.3 basis points at June 30, 2010 and December 31, 2009, respectively, to determine the present value of projected contractual liability payments through final maturity. 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 are determined based on quoted market prices.

The fair value of the Company’s redeemable series C preference ordinary shares outstanding is determined based on indicative quotes provided by brokers.

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.

4. Segment Information

Following a streamlining of the Company's operating segments in the first quarter of 2009, the Company is organized into three operating segments: Insurance, Reinsurance and Life operations. The Company's general investment and financing operations are reflected in Corporate.

The Company evaluates the performance for both the Insurance and Reinsurance segments based on underwriting profit and contribution from its Life operations segment. Other items of revenue and expenditure of the Company are not evaluated at the segment level for reporting purposes. In addition, the Company does not allocate investment assets by segment for its Property and Casualty ("P&C") operations. Investment assets related to the Company's Life operations and certain structured products included in the Insurance and Reinsurance segments and Corporate are held in separately identified portfolios. As such, net investment income from these assets is included in the contribution from each of these segments.

Three months ended June 30, 2010: *(U.S. dollars in thousands, except ratios) (Unaudited)*	Insurance	Reinsurance	Total P&C	Life Operations	Corporate	Total
Gross premiums written	$ 1,085,740	$ 421,340	$ 1,507,080	$ 92,838	$ —	$ 1,599,918
Net premiums written	757,424	357,180	1,114,604	86,094	—	1,200,698
Net premiums earned	868,666	347,647	1,216,313	86,448	—	1,302,761
Net losses and loss expenses	592,184	154,981	747,165	123,375	—	870,540
Acquisition costs	92,236	75,572	167,808	12,752	—	180,560
Operating expenses (1)	163,005	43,662	206,667	2,765	—	209,432
Underwriting profit (loss)	$ 21,241	73,432	94,673	(52,444)	—	42,229
Net investment income			205,346	75,389	—	280,735
Net results from structured products (2)	2,940	5,776	8,716	—	3,086	11,802
Net fee income and other (3)	(4,337)	575	(3,762)	114	—	(3,648)
Net realized gains (losses) on investments			(55,876)	(5,445)	(65)	(61,386)
Contribution from P&C, Life Operations and Corporate			249,097	17,614	3,021	269,732
Corporate & other:						
Net realized & unrealized gains (losses) on derivative instruments					(19,896)	(19,896)
Net income (loss) from financial, investments and other operating affiliates					40,097	40,097
Exchange (gains) losses					(32,276)	(32,276)
Corporate operating expenses					22,793	22,793
Interest expense (4)					38,551	38,551
Non-controlling interest in net (income) loss of subsidiary					80	80
Loss on termination of guarantee					23,500	23,500
Income taxes & other					43,440	43,440
Net income attributable to XL Capital Ltd						$ 194,005
Ratios—P&C operations: (5)						
Loss and loss expense ratio	68.2%	44.6%	61.4%			
Underwriting expense ratio	29.4%	34.3%	30.8%			
Combined ratio	97.6%	78.9%	92.2%			

Notes:

(1) Operating expenses exclude Corporate operating expenses, shown separately.

(2) The net results from P&C and Corporate structured products include net investment income, interest expense and operating expenses of $17.2 million, $9.9 million and $1.4 million (credit) and $4.7 million, $0.7 million and $0.9 million, respectively.

(3) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business and expenses related to the cost of an endorsement facility with National Indemnity Company.

(4) Interest expense excludes interest expense related to deposit liabilities recorded in the Insurance and Reinsurance segments and Corporate.

(5) Ratios are based on net premiums earned from P&C operations.

4. Segment Information (Continued)

Three months ended June 30, 2009: *(U.S. dollars in thousands, except ratios)* *(Unaudited)*	Insurance	Reinsurance	Total P&C	Life Operations	Corporate (6)	Total
Gross premiums written	$ 1,124,220	$ 376,970	$ 1,501,190	$ 150,711	$ —	$ 1,651,901
Net premiums written	766,606	311,672	1,078,278	140,674	—	1,218,952
Net premiums earned	881,490	400,259	1,281,749	147,951	—	1,429,700
Net losses and loss expenses	598,784	180,844	779,628	174,588	—	954,216
Acquisition costs	112,430	85,302	197,732	25,540	—	223,272
Operating expenses (1)	167,931	47,019	214,950	4,269	—	219,219
Underwriting profit (loss)	$ 2,345	87,094	89,439	(56,446)	—	32,993
Net investment income			218,490	82,855	—	301,345
Net results from structured products (2)	4,093	6,172	10,265	—	5,019	15,284
Net fee income and other (3)	(3,220)	545	(2,675)	123	—	(2,552)
Net realized gains (losses) on investments			(34,570)	(51,663)	5,803	(80,430)
Contribution from P&C, Life Operations and Corporate			280,949	(25,131)	10,822	266,640
Corporate & other:						
Net realized & unrealized gains (losses) on derivative instruments					969	969
Net income (loss) from financial, investments and other operating affiliates					54,753	54,753
Exchange (gains) losses					145,221	145,221
Corporate operating expenses					32,219	32,219
Interest expense (4)					42,912	42,912
Non-controlling interest in net (income) loss of subsidiary					40	40
Income taxes & other					16,509	16,509
Net income attributable to XL Capital Ltd						$ 85,541
Ratios—P&C operations: (5)						
Loss and loss expense ratio	67.9%	45.2%	60.8%			
Underwriting expense ratio	31.8%	33.0%	32.2%			
Combined ratio	99.7%	78.2%	93.0%			

Notes:

(1) Operating expenses exclude Corporate operating expenses, shown separately.

(2) The net results from P&C and Corporate structured products include net investment income, interest expense and operating expenses of $19.4 million, $9.1 million and nil and $7.6 million, $2.2 million and $0.4 million, respectively.

(3) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business and expenses related to the cost of an endorsement facility with National Indemnity Company.

(4) Interest expense excludes interest expense related to deposit liabilities recorded in the Insurance and Reinsurance segments and Corporate.

(5) Ratios are based on net premiums earned from P&C operations.

4. Segment Information (Continued)

Six months ended June 30, 2010:
(U.S. dollars in thousands, except ratios)
(Unaudited)

	Insurance	Reinsurance	Total P&C	Life Operations	Corporate (6)	Total
Gross premiums written	$ 2,217,630	$ 1,211,763	$ 3,429,393	$ 205,739	$ —	$ 3,635,132
Net premiums written	1,658,688	1,052,441	2,711,129	190,760	—	2,901,889
Net premiums earned	1,765,677	714,237	2,479,914	191,332	—	2,671,246
Net losses and loss expenses	1,240,503	398,862	1,639,365	247,118	—	1,886,483
Acquisition costs	202,378	148,177	350,555	31,142	—	381,697
Operating expenses (1)	316,241	85,690	401,931	5,773	—	407,704
Underwriting profit (loss)	$ 6,555	81,508	88,063	(92,701)	—	(4,638)
Net investment income			409,260	155,733	—	564,993
Net results from structured products (2)	8,579	8,252	16,831	—	6,739	23,570
Net fee income and other (3)	(8,123)	894	(7,229)	154	—	(7,075)
Net realized gains (losses) on investments			(84,453)	(9,858)	(3,251)	(97,562)
Contribution from P&C, Life Operations and Corporate			422,472	53,328	3,488	479,288
Corporate & other:						
Net realized & unrealized gains (losses) on derivative instruments					(40,376)	(40,376)
Net income (loss) from financial, investments and other operating affiliates					59,881	59,881
Exchange (gains) losses					(53,359)	(53,359)
Corporate operating expenses					41,656	41,656
Interest expense (4)					75,451	75,451
Non-controlling interest in net (income) loss of subsidiary					81	81
Loss on termination of guarantee					23,500	23,500
Income taxes & other					73,741	73,741
Net income attributable to XL Capital Ltd						$ 337,885
Ratios—P&C operations: (5)						
Loss and loss expense ratio	70.3%	55.8%	66.1%			
Underwriting expense ratio	29.3%	32.8%	30.3%			
Combined ratio	99.6%	88.6%	96.4%			

Notes:

(1) Operating expenses exclude Corporate operating expenses, shown separately.

(2) The net results from P&C and Corporate structured products include net investment income, interest expense and operating expenses of $36.9 million, $21.4 million and $1.3 million (credit) and $9.0 million, $1.3 million and $0.9 million, respectively.

(3) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business and expenses related to the cost of an endorsement facility with National Indemnity Company.

(4) Interest expense excludes interest expense related to deposit liabilities recorded in the Insurance and Reinsurance segments and Corporate.

(5) Ratios are based on net premiums earned from P&C operations.

4. Segment Information (Continued)

Six months ended June 30, 2009:
(U.S. dollars in thousands, except ratios)
(Unaudited)

	Insurance	Reinsurance	Total P&C	Life Operations	Corporate (6)	Total
Gross premiums written	$ 2,215,465	$ 1,163,953	$ 3,379,418	$ 285,823	$ —	$ 3,665,241
Net premiums written	1,598,774	984,815	2,583,589	262,259	—	2,845,848
Net premiums earned	1,791,601	811,835	2,603,436	277,785	—	2,881,221
Net losses and loss expenses	1,213,998	355,913	1,569,911	332,547	—	1,902,458
Acquisition costs	217,842	181,026	398,868	42,623	—	441,491
Operating expenses (1)	347,259	94,107	441,366	8,110	—	449,476
Underwriting profit (loss)	$ 12,502	180,789	193,291	(105,495)	—	87,796
Net investment income			460,656	160,377	—	621,033
Net results from structured products (2)	7,214	14,596	21,810	—	9,664	31,474
Net fee income and other (3)	(4,220)	2,596	(1,624)	174	—	(1,450)
Net realized gains (losses) on investments			(197,383)	(126,313)	(8,671)	(332,367)
Contribution from P&C, Life Operations and Corporate			476,750	(71,257)	993	406,486
Corporate & other:						
Net realized & unrealized gains (losses) on derivative instruments					(438)	(438)
Net income (loss) from financial, investments and other operating affiliates					17,532	17,532
Exchange (gains) losses					120,597	120,597
Corporate operating expenses					58,931	58,931
Interest expense (4)					92,527	92,527
Non-controlling interest in net (income) loss of subsidiary					40	40
Income taxes & other					62,927	62,927
Net income attributable to XL Capital Ltd						$ 88,638
Ratios—P&C operations: (5)						
Loss and loss expense ratio	67.8%	43.8%	60.3%			
Underwriting expense ratio	31.5%	33.9%	32.3%			
Combined ratio	99.3%	77.7%	92.6%			

Notes:

(1) Operating expenses exclude Corporate operating expenses, shown separately.

(2) The net results from P&C and Corporate structured products include net investment income, interest expense and operating expenses of $39.7 million, $17.9 million and nil and $15.6 million, $5.1 million and $0.8 million, respectively.

(3) Net fee income and other includes operating expenses from the Company's loss prevention consulting services business and expenses related to the cost of an endorsement facility with National Indemnity Company.

(4) Interest expense excludes interest expense related to deposit liabilities recorded in the Insurance and Reinsurance segments and Corporate.

(5) Ratios are based on net premiums earned from P&C operations.

4. Segment Information (Continued)

The following tables summarize the Company's net premiums earned by line of business:

Three months ended June 30, 2010 *(U.S. dollars in thousands)* *(Unaudited)*	Insurance	Reinsurance	Life Operations	Total
P&C Operations:				
Casualty – professional lines	$ 328,068	$ 51,665	$ —	$ 379,733
Casualty – other lines	147,001	51,320	—	198,321
Property catastrophe	(1)	80,877	—	80,876
Other property	108,016	115,425	—	223,441
Marine, energy, aviation and satellite	133,720	22,451	—	156,171
Other specialty lines (1)	153,949	—	—	153,949
Other (2)	(4,555)	25,847	—	21,292
Structured indemnity	2,468	62	—	2,530
Total P&C Operations	$ 868,666	347,647	$ —	$ 1,216,313
Life Operations:				
Other Life	$ —	$ —	$ 55,879	$ 55,879
Annuity	—	—	30,569	30,569
Total Life Operations	$ —	$ —	$ 86,448	$ 86,448
Total	$ 868,666	$ 347,647	$ 86,448	$ 1,302,761

Three months ended June 30, 2009: *(U.S. dollars in thousands)* *(Unaudited)*	Insurance	Reinsurance	Life Operations	Total
P&C Operations:				
Casualty – professional lines	$ 310,985	$ 62,135	$ —	$ 373,120
Casualty – other lines	160,653	60,660	—	221,313
Property catastrophe	1,760	75,478	—	77,238
Other property	104,636	140,336	—	244,972
Marine, energy, aviation and satellite	139,835	20,333	—	160,168
Other specialty lines (1)	153,990	—	—	153,990
Other (2)	4,563	39,944	—	44,507
Structured indemnity	5,068	1,373	—	6,441
Total P&C Operations	$ 881,490	$ 400,259	$ —	$ 1,281,749
Life Operations:				
Other Life	$ —	$ —	$ 114,560	$ 114,560
Annuity	—	—	33,391	33,391
Total Life Operations	$ —	$ —	$ 147,951	$ 147,951
Total	$ 881,490	$ 400,259	$ 147,951	$ 1,429,700

(1) Other specialty lines within the Insurance segment includes: environmental, programs, equine, warranty, specie, middle markets and excess and surplus lines.

(2) Other includes credit and surety, whole account contracts and other lines.

4. Segment Information (Continued)

The following tables summarize the Company's net premiums earned by line of business:

Six months ended June 30, 2010 *(U.S. dollars in thousands)* *(Unaudited)*	Insurance	Reinsurance	Life Operations	Total
P&C Operations:				
Casualty – professional lines	$ 665,126	$ 107,385	$ —	$ 772,511
Casualty – other lines	309,549	115,453	—	425,002
Property catastrophe	115	165,511	—	165,626
Other property	205,555	228,688	—	434,243
Marine, energy, aviation and satellite	274,490	42,641	—	317,131
Other specialty lines (1)	306,457	—	—	306,457
Other (2)	(609)	54,844	—	54,235
Structured indemnity	4,994	(285)	—	4,709
Total P&C Operations	$ 1,765,677	714,237	$ —	$ 2,479,914
Life Operations:				
Other Life	$ —	$ —	$ 129,332	$ 129,332
Annuity	—	—	62,000	62,000
Total Life Operations	$ —	$ —	$ 191,332	$ 191,332
Total	$ 1,765,677	$ 714,237	$ 191,332	$ 2,671,246

Six months ended June 30, 2009: *(U.S. dollars in thousands)* *(Unaudited)*	Insurance	Reinsurance	Life Operations	Total
P&C Operations:				
Casualty – professional lines	$ 626,601	$ 124,129	$ —	$ 750,730
Casualty – other lines	315,158	123,443	—	438,601
Property catastrophe	1,762	146,174	—	147,936
Other property	214,072	283,096	—	497,168
Marine, energy, aviation and satellite	287,483	41,614	—	329,097
Other specialty lines (1)	324,087	—	—	324,087
Other (2)	12,508	92,037	—	104,545
Structured indemnity	9,930	1,342	—	11,272
Total P&C Operations	$ 1,791,601	$ 811,835	$ —	$ 2,603,436
Life Operations:				
Other Life	$ —	$ —	$ 214,967	$ 214,967
Annuity	—	—	62,818	62,818
Total Life Operations	$ —	$ —	$ 277,785	$ 277,785
Total	$ 1,791,601	$ 811,835	$ 277,785	$ 2,881,221

(1) Other specialty lines within the Insurance segment includes: environmental, programs, equine, warranty, specie, middle markets and excess and surplus lines.

(2) Other includes credit and surety, whole account contracts and other lines.

5. Investments

The cost (amortized cost for fixed maturities and short-term investments), fair value, gross unrealized gains, gross unrealized (losses), and other-than-temporary impairments ("OTTI") recorded in accumulated other comprehensive income ("AOCI") of the Company's available for sale investments at June 30, 2010 and December 31, 2009 were as follows:

June 30, 2010 *(U.S. dollars in thousands)* *(Unaudited)*	Cost or Amortized Cost	Included in Accumulated Other Comprehensive Income ("AOCI"): Gross Unrealized Gains	Gross Unrealized Losses: Related to changes in estimated fair value	Gross Unrealized Losses: OTTI included in other comprehensive income (Loss)(1)	Fair Value
Fixed maturities					
U.S. Government and Government-Related/Supported (2)	$ 2,375,159	$ 126,505	$ (9,758)	$ —	$ 2,491,906
Corporate (3) (4)	10,659,732	457,586	(336,992)	(77,110)	10,703,216
Residential mortgage-backed securities–Agency	5,733,573	204,831	(1,225)	—	5,937,179
Residential mortgage-backed securities–Non-Agency	1,772,876	18,943	(252,550)	(207,668)	1,331,601
Commercial mortgage-backed securities	1,237,784	47,254	(10,502)	(14,702)	1,259,834
Collateralized debt obligations	1,013,097	9,762	(314,234)	(9,180)	699,445
Other asset-backed securities	1,204,176	26,764	(29,516)	(13,642)	1,187,782
U.S. States and political subdivisions of the States	1,120,582	28,257	(7,963)	—	1,140,876
Non-U.S. Sovereign Government, Supranational and Government-Related/Supported (2)	2,878,757	106,489	(55,246)	—	2,930,000
Total fixed maturities	$ 27,995,736	$ 1,026,391	$ (1,017,986)	$ (322,302)	$ 27,681,839
Total short-term investments	$ 1,544,344	$ 15,337	$ (7,380)	$ —	$ 1,552,301
Total equity securities	$ 16,091	$ 4,391	$ (507)	$ —	$ 19,975

(1) Represents the amount of OTTI losses in AOCI, which from April 1, 2009 was not included in earnings under authoritative accounting guidance.

(2) U.S. Government and Government-Related/Supported and Non-U.S. Sovereign Government, Supranationals and Government-Related/Supported includes government-related securities with an amortized cost of $1,880.8 million and fair value of $1,928.7 million and U.S. Agencies with an amortized cost of $1,020.9 million and fair value of $1,093.6 million.

(3) Included within Corporate are certain medium term notes supported primarily by pools of European credit with varying degrees of leverage. The notes have a fair value of $552.6 million and an amortized cost of $620.2 million. These notes allow the investor to participate in cash flows of the underlying bonds including certain residual values, which could serve to either decrease or increase the ultimate values of these notes.

(4) Included in the table above are Tier One and Upper Tier Two securities, representing committed term debt and hybrid instruments senior to the common and preferred equities of the financial institutions. These securities have a fair value of $753.4 million and an amortized cost of $915.2 million as at June 30, 2010.

5. Investments (Continued)

December 31, 2009 *(U.S. dollars in thousands)*	Cost or Amortized Cost	Included in Accumulated Other Comprehensive Income ("AOCI") Gross Unrealized Gains	Gross Unrealized Losses: Related to changes in estimated fair value	Gross Unrealized Losses: OTTI included in other comprehensive income (Loss)(1)	Fair Value
Fixed maturities					
U.S. Government and Government-Related/Supported (2)	$ 2,619,731	$ 73,611	$ (28,717)	$ —	$ 2,664,625
Corporate (3) (4)	10,121,973	260,451	(472,170)	(111,254)	9,799,000
Residential mortgage-backed securities–Agency	6,169,707	96,715	(37,921)	—	6,228,501
Residential mortgage-backed securities–Non-Agency	2,015,593	13,958	(397,696)	(210,540)	1,421,315
Commercial mortgage-backed securities	1,276,602	8,107	(54,095)	(13,815)	1,216,799
Collateralized debt obligations	1,030,245	9,783	(332,403)	(9,064)	698,561
Other asset-backed securities	1,247,822	13,046	(82,438)	(10,445)	1,167,985
U.S. States and political subdivisions of the States	909,609	18,465	(14,601)	—	913,473
Non-U.S. Sovereign Government, Supranational and Government-Related/Supported (2)	3,407,222	60,506	(65,955)	—	3,401,773
Total fixed maturities	$ 28,798,504	$ 554,642	$ (1,485,996)	$ (355,118)	$ 27,512,032
Total short-term investments	$ 1,767,197	$ 16,899	$ (6,736)	$ —	$ 1,777,360
Total equity securities	$ 12,344	$ 5,793	$ (358)	$ —	$ 17,779

(1) Represents the amount of OTTI losses in AOCI, which from April 1, 2009 was not included in earnings under authoritative accounting guidance.

(2) U.S. Government and Government-Related/Supported and Non U.S. Sovereign Government, Supranationals and Government-Related/Supported includes government-related securities with an amortized cost of $2,325.4 million and fair value of $2,326.6 million and U.S. Agencies with an amortized cost of $1,361.6 million and fair value of $1,395.0 million.

(3) Included within Corporate are certain medium term notes supported primarily by pools of European credit with varying degrees of leverage. The notes have a fair value of $587.7 million and an amortized cost of $707.9 million. These notes allow the investor to participate in cash flows of the underlying bonds including certain residual values, which could serve to either decrease or increase the ultimate values of these notes.

(4) Included in the table above are Tier One and Upper Tier Two securities, representing committed term debt and hybrid instruments senior to the common and preferred equities of the financial institutions. These securities have a fair value of $904.3 million and an amortized cost of $1,104.6 million as at December 31, 2009.

The Company had gross unrealized losses totaling $1.3 billion at June 30, 2010 on its available for sale portfolio, which it considers to be temporarily impaired. Individual security positions comprising this balance have been evaluated by management, based on specified criteria, to determine if these impairments should be considered other-than-temporary. These criteria include an assessment of the severity of impairment along with management's assessment as to whether it is likely to sell these securities, among other factors included below.

5. Investments (Continued)

At June 30, 2010 and December 31, 2009, approximately 3.7% and 3.6%, respectively, of the Company's fixed income investment portfolio at fair value was invested in securities which were below investment grade or not rated. Approximately 36.7% and 30.1% of the gross unrealized losses in the Company's fixed income securities portfolio at June 30, 2010 and December 31, 2009, respectively, related to securities that were below investment grade or not rated.

The following is an analysis of how long the available for sale securities at June 30, 2010 had been in a continual unrealized loss position:

June 30, 2010 *(U.S. dollars in thousands)* *(Unaudited)*	Less than 12 months		Equal to or greater than 12 months	
	Fair Value	Gross Unrealized Losses (1)	Fair Value	Gross Unrealized Losses (1)
Fixed maturities and short-term investments:				
U.S. Government and Government Related/Supported	$ 105,343	$ 4,065	$ 161,540	$ 6,489
Corporate (2) (3)	775,557	42,043	2,111,010	374,390
Residential mortgage-backed securities–Agency	42,644	315	14,524	912
Residential mortgage-backed securities–Non-Agency	85,588	22,405	1,086,479	438,337
Commercial mortgage-backed securities	13,520	410	181,773	24,823
Collateralized debt obligations	89,024	25,557	600,126	298,409
Other asset-backed securities	27,522	170	348,623	43,640
U.S. States and political subdivisions of the States	258,451	3,295	29,685	4,677
Non-U.S. Sovereign Government, Supranational and Government-Related	407,078	17,380	366,787	40,351
Total fixed maturities and short-term investments	$ 1,804,727	$ 115,640	$ 4,900,547	$ 1,232,028
Total equity securities	$ 5,002	$ 507	$ —	$ —

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

(2) Included within Corporate are certain medium term notes supported primarily by pools of European credit with varying degrees of leverage. The notes have a fair value of $374.3 million and an amortized cost of $443.6 million. These notes allow the investor to participate in cash flows of the underlying bonds including certain residual values, which could serve to either decrease or increase the ultimate values of these notes.

(3) Included in the table above are Tier One and Upper Tier Two securities, representing committed term debt and hybrid instruments senior to the common and preferred equities of the financial institutions. These securities have a fair value of $753.4 million and an amortized cost of $915.2 million as at June 30, 2010.

5. Investments (Continued)

The following is an analysis of how long each of those available for sale securities at December 31, 2009 had been in a continual unrealized loss position:

December 31, 2009 (U.S. dollars in thousands)	Less than 12 months		Equal to or greater than 12 months	
	Fair Value	Gross Unrealized Losses (1)	Fair Value	Gross Unrealized Losses (1)
Fixed maturities and short-term investments:				
U.S. Government and Government-Related/Supported	$ 792,605	$ 15,527	$ 84,105	$ 13,691
Corporate (2) (3)	1,892,737	55,538	2,900,332	527,963
Residential mortgage-backed securities–Agency	2,948,912	37,592	2,342	329
Residential mortgage-backed securities–Non-Agency	208,914	71,999	1,140,549	536,237
Commercial mortgage-backed securities	231,230	9,347	558,551	58,563
Collateralized debt obligations	127,171	36,144	563,340	306,058
Other asset-backed securities	273,034	4,555	553,286	88,677
U.S. States and political subdivisions of the States	326,392	5,586	55,278	9,015
Non-U.S. Sovereign Government, Supranational and Government-Related	944,204	17,499	514,058	53,530
Total fixed maturities and short-term investments	$ 7,745,199	$ 253,787	$ 6,371,841	$ 1,594,063
Total equity securities	$ 1,660	$ 358	$ —	$ —

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

(2) Included within Corporate are certain medium term notes supported primarily by pools of European credit with varying degrees of leverage. The notes have a fair value of $587.7 million and an amortized cost of $707.9 million. These notes allow the investor to participate in cash flows of the underlying bonds including certain residual values, which could serve to either decrease or increase the ultimate values of these notes.

(3) Included in the table above are Tier One and Upper Tier Two securities, representing committed term debt and hybrid instruments senior to the common and preferred equities of the financial institutions. These securities have a fair value of $904.3 million and an amortized cost of $1,104.6 million as at December 31, 2009.

The contractual maturities of available for sale fixed income securities 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.

(U.S. dollars in thousands) (Unaudited)	June 30, 2010 (1)		December 31, 2009 (1)	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due after 1 through 5 years	$ 8,339,377	$ 8,501,119	$ 7,969,186	$ 8,010,078
Due after 5 through 10 years	3,860,698	4,026,417	3,936,489	3,962,993
Due after 10 years	4,834,155	4,738,462	5,152,860	4,805,800
	17,034,230	17,265,998	17,058,535	16,778,871
Residential mortgage-backed securities–Agency	5,733,573	5,937,179	6,169,707	6,228,501
Residential mortgage-backed securities–Non-Agency	1,772,876	1,331,601	2,015,593	1,421,315
Commercial mortgage-backed securities	1,237,784	1,259,834	1,276,602	1,216,799
Collateralized debt obligations	1,013,097	699,445	1,030,245	698,561
Other asset-backed securities	1,204,176	1,187,782	1,247,822	1,167,985
Total mortgage and asset-backed securities	10,961,506	10,415,841	11,739,969	10,733,161
Total	$ 27,995,736	$ 27,681,839	$ 28,798,504	$ 27,512,032

(1) Included in the table above are Tier One and Upper Tier Two securities, representing committed term debt and hybrid instruments senior to the common and preferred equities of the financial institutions, at their fair value of $753.4 million and $904.3 million as at June 30, 2010 and December 31, 2009, respectively. These securities have been distributed in the table based on their call date and have net unrealized losses of $185.2 million and $225.2 million as at June 30, 2010 and December 31, 2009, respectively.

5. Investments (Continued)

Gross unrealized losses of $1.3 billion on available for sale assets at June 30, 2010 can be attributed to the following significant drivers:

- gross unrealized losses of $272.6 million related to the Company's Life operations investment portfolio, which had a fair value of $6.1 billion as at June 30, 2010. Of this, $204.8 million of gross unrealized losses related to $1.6 billion of exposures to corporate financial institutions including $145.8 million of losses on $613.2 million of Tier One and Upper Tier Two securities. In addition, $42.9 million of gross unrealized losses are foreign exchange losses related to the corporate holdings within the Company's Life operations investment portfolio. At June 30, 2010, this portfolio had an average interest rate duration of 8.6 years, primarily denominated in U.K. Sterling and Euros. As a result of the long duration, significant gross losses have arisen as the fair values of these securities are more sensitive to prevailing government interest rates and credit spreads. This portfolio is matched to corresponding long duration liabilities. A hypothetical parallel increase in interest rates and credit spreads of 50 basis points, respectively, would increase the unrealized losses related to this portfolio at June 30, 2010 by approximately $261.2 million and $198.9 million, respectively on both the available for sale and held to maturity portfolios. Given the long term nature of this portfolio, and the level of credit spreads as at June 30, 2010 relative to historical averages within the U.K. and Euro-zone as well as the Company's liquidity needs at June 30, 2010, the Company believes that these assets will continue to be held until such time as they mature, or credit spreads revert to levels more consistent with historical averages.

- gross unrealized losses of $184.4 million related to the corporate holdings within the Company's non-life fixed income portfolios, which had a fair value of $8.0 billion as at June 30, 2010. Of this, $51.2 million of gross unrealized losses related to foreign exchange losses. During the quarter ended June 30, 2010, as a result of widening credit spreads particularly in European financial markets, the gross unrealized losses on these holdings has increased.

  Of the gross unrealized losses noted above, $66.5 million relate to medium term notes primarily supported by pools of investment grade European credit with varying degrees of leverage. These had a fair value of $513.7 million at June 30, 2010. Management believes that expected cash flows over the expected holding period from these bonds are sufficient to support the remaining reported amortized cost.

- gross unrealized losses of $446.5 million related to non-Agency residential mortgage backed securities ("RMBS") portfolio (which consists of the Company's holdings of sub-prime non-agency securities, second liens, ABS CDOs with sub-prime collateral, Alt-A mortgage exposures and Prime RMBS), which had a fair value of $1,148.4 million as at June 30, 2010. The Company undertook a security level review in conjunction with its investment manager service providers of these securities and recognized charges to the extent it believed the discounted cash flow value (or fair value in certain cases) of any security was below its amortized cost. The Company has recognized realized losses, consisting of charges for OTTI and realized losses from sales, of approximately $1.2 billion since the beginning of 2007 and through June 30, 2010 on these asset classes.

  The Company purchased a number of these assets to support the previously written guaranteed investment contract ("GIC") and funding agreement contracts and has reduced its exposure to this asset class as part of its strategic portfolio realignment. The Company believes that, based on market conditions and liquidity needs at June 30, 2010, this reduction will be realized through natural cash flows of the portfolio, and limited selective sales, rather than selling these assets into markets which continue to not be reflective of the intrinsic value of these assets. The weighted average life of the sub-prime and Alt-A residential holdings within this portfolio at June 30, 2010 were 4.6 years and 4.0 years, respectively. The Company, based on current market conditions and liquidity needs as well as its assessment of the holdings, believes it will continue to hold these securities until either maturity or a return of liquidity and valuations more reflective of intrinsic value of these holdings.

5. Investments (Continued)

- gross unrealized losses of $321.6 million related to the non-Life portfolio of Core CDO holdings (defined by the Company as investments in non-subprime collateralized debt obligations), which consists primarily of CDOs and had a fair value of $701.9 million as of June 30, 2010. The Company undertook a security level review in conjunction with its investment manager service providers of these securities and recognized charges to the extent it believed the discounted cash flow value of the security was below the amortized cost. The Company believes that the level of impairment is primarily a function of continuing wide spreads in the CDO market during the period, driven by the level of illiquidity in this market. The Company purchased a number of these assets to support the previously written GIC and funding agreement contracts and has announced its intention to reduce its exposure to this asset class over time as a part of its strategic portfolio realignment. The Company, based on current market conditions and liquidity needs as well as its assessment of the holdings, believes it is likely that the Company will continue to hold these securities until either maturity or a recovery of value, following which the Company intends to reduce its exposure to this asset class.

Management, in its assessment of whether securities in a gross unrealized loss position are temporarily impaired, considers the significance of the impairments. The Company had structured credit securities with gross unrealized losses of $243.1 million, with a fair value of $135.5 million, which at June 30, 2010 were impaired by greater than 50% of amortized costs. All of these are asset-backed or non-Agency mortgage backed securities. Of these gross unrealized losses, $52.2 million are rated investment grade. The Company has evaluated each of these securities in conjunction with its investment manager service providers and 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 and the Company does not have the intent to sell. These securities include gross unrealized losses of $139.3 million on non-Agency RMBS, $85.8 million on Core CDOs and $7.7 million on commercial mortgage backed securities (“CMBS”) holdings.

Included in the gross unrealized losses associated with the Company’s corporate portfolio as of June 30, 2010 are gross unrealized losses of $7.8 million related to Tier One and Upper Tier Two securities that have been rated below investment grade by at least one major rating agency. Of this total, none have gross unrealized losses representing greater than 50% of amortized cost. The Company has completed its review of this portfolio and believes, at this time, that these impairments remain temporary in nature. The primary basis for this conclusion was the analysis of the fundamentals of these securities using a debt-based impairment model, which indicated that these securities continue to meet their obligations, and the issuer has the ability to call these obligations at their call date. In addition, as these securities are below investment grade, the Company considered these securities using an equity impairment model. Factors that were considered and supported that these impairments were temporary included that the vast majority of these securities had been rated below investment grade beginning in first quarter of 2009, in certain cases alternative ratings were available that indicated these securities remained investment grade, or the securities were only slightly below investment grade and recent improvement in the prices of these securities. At June 30, 2010, the Company believes that it is likely that the fair values of these securities will ultimately increase to equal the cost basis over a reasonable period of time. However, there is a high degree of judgment in reaching this conclusion, including an assessment of how various governments will treat these securities in the event of governmental intervention in these institutions’ operations or management’s decision to defer calls or coupons. Management will closely monitor the developments related to these securities.

The Company recorded net impairment charges of $57.4 million for the quarter ended June 30, 2010. The significant assumptions and inputs associated with these securities consist of:

- For structured credit securities, the Company recorded net impairments of $25.0 million for the quarter ended June 30, 2010. The Company determined that the likely recovery on these securities was below the amortized cost, and accordingly impaired the securities to the discounted value of the cash flows of these securities.

- For corporate securities, excluding medium term notes backed primarily by investment grade European credit, the Company recorded negligible net impairments for the quarter ended June 30, 2010. The impairment charges consisted of below investment grade securities, with respect to which the Company considered impairment factors consistent with an equity impairment model, along with a debt impairment model, and accordingly recorded impairment charges to fair value, or determined that the securities in an unrealized loss position would be sold.

5. Investments (Continued)

- § For equities, the Company recorded impairments of $0.4 million for the quarter ended June 30, 2010 because the security was impaired for more than 11 months.
- § The Company recorded impairments of $6.7 million related to currency losses for the quarter ended June 30, 2010.
- § The Company recorded impairments totaling $25.3 million in relation to medium term notes backed primarily by investment grade European credit that are securities for which management has the intent to sell.

As discussed in Note 2, a portion of certain OTTI losses on fixed income securities and short-term investments is recognized in “Other comprehensive income (loss)” (“OCI”). Under final authoritative accounting guidance effective April 1, 2009, other than in a situation in which the Company has the intent to sell a security or more likely than not will be required to sell a security, the amount of the OTTI related to a credit loss is recognized in earnings, and the amount of the OTTI related to other factors (i.e., interest rates, market conditions, etc.) is recorded as a component of OCI. The net amount recognized in earnings (“credit loss impairments”) represents the difference between the amortized cost of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in OCI. The following table sets forth the amount of credit loss impairments on fixed income securities held by the Company as of the dates indicated, for which a portion of the OTTI loss was recognized in OCI, and the corresponding changes in such amounts.

(U.S. dollars in thousands) (Unaudited)	OTTI related to Credit Losses recognized in earnings			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Opening balance	551,748	—	537,121	—
Credit losses remaining in retained earnings related to adoption of new authoritative guidance	—	187,773	—	187,773
Credit loss impairment recognized in the current period on securities not previously impaired	9,384	13,594	19,458	13,594
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(22,003)	(4,177)	(37,978)	(4,177)
Credit loss impairments previously recognized on securities impaired to fair value during the period	(130,891)	—	(130,891)	—
Additional credit loss impairments recognized in the current period on securities previously impaired	22,591	27,988	50,218	27,988
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(7,788)	—	(14,887)	—
Balance, June 30, 2010	$ 423,041	$ 225,178	$ 423,041	$ 225,178

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

The following represents an analysis of net realized gains (losses) on investments:

(U.S. dollars in thousands) (Unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Gross realized gains	28,969	97,579	63,142	285,254
Gross realized losses	(90,355)	(178,009)	(160,704)	(617,621)
Net realized (losses) on investments	$ (61,386)	$ (80,430)	$ (97,562)	$ (332,367)

5. Investments (Continued)

Transfer of Available for Sale Securities to Held to Maturity

In November 2009, the Company formalized its intention to hold certain fixed income securities to maturity. Consistent with this intention, the Company has reclassified these securities from available for sale to held to maturity in the consolidated financial statements. As a result of this classification, these fixed income securities are reflected in the held to maturity portfolio and recorded at amortized cost in the consolidated balance sheet and not fair value. The held to maturity portfolio is comprised of long duration non-U.S. sovereign government and government-related securities which are primarily Euro denominated. The Company believes this held to maturity strategy is achievable due to the relatively stable and predictable cash flows of the Company's long-term liabilities within its Life operations along with its ability to substitute other assets at a future date in the event that liquidity was required due to changes in expected cash flows or other transactions entered into related to the long-term liabilities supported by the held to maturity portfolio. The unrealized appreciation at the date of the transfer continues to be reported as a separate component of shareholders' equity and is being amortized over the remaining lives of the securities as an adjustment to yield in a manner consistent with the amortization of any premium or discount. The unrealized U.S. dollar equivalent appreciation on the date of transfer was $51.2 million and $41.9 million of this balance remains unamortized at June 30, 2010.

On August 1, 2010 the Company reclassified an additional $2.1 billion in fixed income securities as held to maturity. The unrealized U.S. dollar equivalent appreciation on the date of transfer was approximately $71.0 million.

Fixed Maturities–Held to Maturity

The fair values and amortized cost of held to maturity fixed maturities at June 30, 2010 and December 31, 2009 were:

June 30, 2010 *(U.S. dollars in thousands)* *(Unaudited)*	**Cost or Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Fixed maturities				
Non-U.S. Sovereign Government, Supranational and Government-Related	$ 468,738	$ 35,988	$ —	$ 504,726
Total fixed maturities held to maturity	$ 468,738	$ 35,988	$ —	$ 504,726

December 31, 2009 *(U.S. dollars in thousands)*	**Cost or Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Fixed maturities				
Non-U.S. Sovereign Government, Supranational and Government-Related	$ 546,067	$ —	$ (15,748)	$ 530,319
Total fixed maturities held to maturity	$ 546,067	$ —	$ (15,748)	$ 530,319

The Company had gross unrealized gains totaling $36.0 million at June 30, 2010 and gross unrealized losses totaling $15.7 million at December 31, 2009, respectively, which it considers to be temporarily impaired. As at June 30, 2010, the Company's held to maturity portfolio consists entirely of Non-U.S. sovereign holdings and all held to maturity fixed maturity securities have a maturity distribution of due after 10 years at each of June 30, 2010 and December 31, 2009.

6. Derivative Instruments

The Company enters into derivative instruments for both risk management and investment purposes. The Company is exposed to potential loss from various market risks, and manages its market risks based on guidelines established by management. The Company recognizes all derivatives as either assets or liabilities in the balance sheet and measures those instruments at fair value with the changes in fair value of derivatives shown in the consolidated statement of income as “net realized and unrealized gains and losses on derivative instruments” unless the derivatives are designated as hedging instruments. The accounting for derivatives that are designated as hedging instruments is described in Item 8, Note 2(h) to the Consolidated Financial Statements, “Significant Accounting Policies – Derivative Instruments”, in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009.

The following table summarizes information on the location and gross amounts of derivative fair values contained in the consolidated balance sheet as at June 30, 2010 and December 31, 2009:

	June 30, 2010				December 31, 2009			
(U.S. dollars in thousands) *(Unaudited)*	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:								
Interest rate contracts (2)	$ 957,793	$ 329,170	$ 95,648	$ (10,235)	$ 2,169,642	$ 238,639	$ 95,948	$ (8,225)
Foreign exchange contracts	1,097,616	32,007	—	—	1,014,063	15,019	—	—
Total derivatives designated as hedging instruments	$ 2,055,409	$ 361,177	$ 95,948	$ (10,235)	$ 3,183,705	$ 253,658	$ 95,948	$ (8,225)
Derivatives not designated as hedging instruments:								
Investment Related Derivatives:								
Interest rate exposure	$ 150,312	$ 239	$ —	$ —	$ 111,875	$ 1,248	$ 1,800	$ (6)
Foreign exchange exposure	73,655	2,105	283,809	(9,701)	127,329	1,577	314,361	(8,226)
Credit exposure	284,650	11,480	352,000	(2,940)	214,650	13,244	741,388	(18,198)
Financial market exposure	244,160	1,290	400	(31)	306,464	1,983	—	—
Financial Operations Derivatives: (3)								
Credit exposure	—	—	254,456	(25,887)	—	—	271,704	(18,386)
Other Non-Investment Derivatives:								
Contingent capital facility	350,000	—	—	—	350,000	—	—	—
Guaranteed minimum income benefit contract	—	—	84,369	(23,984)	—	—	86,250	(22,909)
Modified coinsurance funds withheld contract	—	—	68,731	—	—	—	71,695	(266)
Foreign exchange exposure	—	—	—	—	—	—	—	—
Total derivatives not designated as hedging instruments	$ 1,102,777	$ 15,114	$ 1,043,765	$ (62,543)	$ 1,110,318	$ 18,052	$ 1,487,198	$ (67,991)

(1) Derivative instruments in an asset or liability position are included within Other Assets or Other Liabilities, respectively, in the Balance Sheet.

(2) At June 30, 2010 and December 31, 2009, the Company held net cash collateral related to these derivative assets of $254.2 million and $169.1 million. The collateral balance is included within cash and cash equivalents and the corresponding liability to return the collateral has been offset against the derivative asset within the balance sheet as appropriate under the netting agreement.

(3) Financial operations derivatives represent interests in variable interest entities as described in Note 10, “Variable Interest Entities.”

6. Derivative Instruments (Continued)

(a) Derivative Instruments Designated as Fair Value Hedges

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

At June 30, 2010, a portion of the Company's liabilities are hedged against changes in the applicable designated benchmark interest rate. Interest rate swaps are also used to hedge the changes in fair value of certain fixed rate liabilities and fixed income securities due to changes in the designated benchmark interest rate. In addition, the Company utilizes foreign exchange contracts to hedge the fair value of certain fixed income securities as well as to hedge certain net investments in foreign operations.

On June 7, 2010, the Company settled the interest rate contracts designated as fair value hedges of certain issues of the Company's notes payable and debt. The derivative contracts were settled for a gain of $21.6 million. The cumulative increase recorded to the carrying value of the hedged notes payable and debt, representing the effective portion of the hedging relationship, will be amortized through interest expense over the remaining term of the debt. From the date of settlement through June 30, 2010, $0.5 million of the balance was recorded as a reduction of interest expense. The remaining balance of $21.2 million will be amortized over the weighted average period remaining to maturity of the debt of 3.6 years.

The following table provides the total impact on earnings relating to derivative instruments formally designated as fair value hedges along with the impacts of the related hedged items for the three and six month periods ended June 30, 2010 and 2009:

Three months ended June 30, 2010
(U.S. dollars in thousands)
(Unaudited)

		Hedged Items – Amount of Gain/(Loss) Recognized in Income Attributable to Risk			
	Gain/(Loss) Recognized in Income on Derivative	Deposit Liabilities	Fixed Maturity Investments	Notes Payable and Debt	Ineffective Portion of Hedging Relationship – Gain/ (Loss)
Derivatives Designated as Fair Value Hedges:					
Interest rate exposure	$ 85,900				
Foreign exchange exposure	13,312				
Total	$ 99,212	$ (85,918)	$ (11,668)	$ (6,209)	$ (4,583)

Three months ended June 30, 2009
(U.S. dollars in thousands)
(Unaudited)

		Hedged Items – Amount of Gain/(Loss) Recognized in Income Attributable to Risk			
	Gain/(Loss) Recognized in Income on Derivative	Deposit Liabilities	Fixed Maturity Investments	Notes Payable and Debt	Ineffective Portion of Hedging Relationship – Gain/ (Loss)
Derivatives Designated as Fair Value Hedges:					
Interest rate exposure	$ (126,914)				
Foreign exchange exposure	—				
Total	$ (126,914)	$ 117,831	$ 10,613	$ —	$ 1,530

6. Derivative Instruments (Continued)

(a) Derivative Instruments Designated as Fair Value Hedges (Continued)

Six months ended June 30, 2010
(U.S. dollars in thousands)
(Unaudited)

		Hedged Items – Amount of Gain/(Loss) Recognized in Income Attributable to Risk			
	Gain/(Loss) Recognized in Income on Derivative	Deposit Liabilities	Fixed Maturity Investments	Notes Payable and Debt	Ineffective Portion of Hedging Relationship – Gain/ (Loss)
Derivatives Designated as Fair Value Hedges:					
Interest rate exposure	$ 92,036				
Foreign exchange exposure	48,556				
Total	$ 140,592	$ (86,742)	$ (46,334)	$ (15,940)	$ (8,424)

Six months ended June 30, 2009
(U.S. dollars in thousands)
(Unaudited)

		Hedged Items – Amount of Gain/(Loss) Recognized in Income Attributable to Risk			
	Gain/(Loss) Recognized in Income on Derivative	Deposit Liabilities	Fixed Maturity Investments	Notes Payable and Debt	Ineffective Portion of Hedging Relationship – Gain/ (Loss)
Derivatives Designated as Fair Value Hedges:					
Interest rate exposure	$ (189,553)				
Foreign exchange exposure	—				
Total	$ (189,553)	$ 182,635	$ 9,759	$ —	$ 2,841

The gains (losses) recorded on both the derivatives instruments and specific items designated as being hedged as part of the fair value hedging relationships outlined above are recorded through net realized and unrealized gains (losses) on derivative instruments in the income statement along with any associated ineffectiveness in the relationships. In addition, the periodic coupon settlements relating to the interest rate swaps are recorded as adjustments to net investment income for the hedges of fixed maturity investments and as adjustments to interest expense for the hedges of deposit liabilities and notes payable and debt.

The periodic coupon settlements resulted in decreases to net investment income of $1.0 million and $2.0 million for the three and six months ended June 30, 2010, respectively and increases to net investment income of $3.1 million and $5.5 million for the three and six months ended June 30, 2009, respectively.

The periodic coupon settlements also resulted in decreases to interest expense of $20.5 million and $34.5 million for the three and six months ended June 30, 2010, respectively, and decreases to interest expense of $6.9 million and $13.1 million for the three and six months ended June 30, 2009, respectively.

6. Derivative Instruments (Continued)

(b) Derivative Instruments Designated as Cash Flow Hedges

During March 2007, the Company entered into an interest rate swap agreement in connection with the issuance of the 2027 Senior Notes, as described in Item 8, Note 16 to the Consolidated Financial Statements, “Notes Payable and Debt and Financing Arrangements,” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2009. This transaction, which met the requirements of accounting guidance applicable to a cash flow hedge of a forecasted transaction, was entered into to mitigate the interest rate risk associated with the subsequent issuance of the 2027 Senior Notes. The gain on the settlement of the swap transaction on May 2, 2007 of $3.8 million was credited to AOCI and is being amortized to interest expense over the 20-year term of the related debt. In addition, the Company entered into a treasury rate guarantee agreement in anticipation of the issuance of $300.0 million of 5.25% Senior Notes due September 15, 2014 during 2004. The loss on the settlement of the treasury rate guarantee transaction on August 18, 2004 of $6.3 million was charged to AOCI and is being amortized to interest expense over the 10-year term of the related debt. The impact on earnings relating to these derivative instruments formally designated as cash flow hedges were increases to interest expense of $0.1million and $0.2 million for each of the three and six months periods ended June 30, 2010 and 2009, respectively.

(c) Derivative Instruments Designated as Hedges of the Net Investment in a Foreign Operation

The Company utilizes foreign exchange contracts to hedge the fair value of certain net investments in foreign operations. During the three and six months ended June 30, 2010, the Company entered into foreign exchange contracts that were formally designated as hedges of the investment in foreign subsidiaries with functional currencies of U.K. Sterling and the Euro. The U.S. Dollar equivalent of foreign denominated net assets of $505.4 million and $372.7 million was hedged during the three and six months ended June 30, 2010, respectively, which resulted in a derivative gain of $19.9 million and $22.6 million being recorded in the cumulative translation adjustment account within AOCI for each period, respectively. There was no ineffectiveness resulting from these transactions. The Company did not have any hedges of net investments in foreign operations in place during the quarter or six months ended June 30, 2009.

(d) 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.

(U.S. dollars in thousands) *(Unaudited)*	Amount of Gain (Loss) Recognized in Income on Derivative			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Derivatives not designated as hedging instruments:				
Investment Related Derivatives:				
Interest rate exposure	2,909	4,751	4,906	5,624
Foreign exchange exposure	(14,574)	14,930	(28,011)	8,514
Credit exposure	2,414	(28,280)	1,143	(27,244)
Financial market exposure	(376)	367	135	2,327
Financial Operations Derivatives:				
Credit exposure	(3,340)	3,669	(7,342)	9,254
Other Non-Investment Derivatives:				
Contingent capital facility	(2,053)	(2,053)	(4,083)	(4,083)
Guaranteed minimum income benefit contract	(2,688)	3,355	(1,075)	(608)
Modified coinsurance funds withheld contract	2,395	(213)	2,375	24
Weather and Energy Derivatives:				
Structured weather risk management products	—	2,913	—	2,913
Total derivatives not designated as hedging instruments	(15,313)	(561)	(31,952)	(3,279)
Amount of gain (loss) recognized in income from ineffective portion of fair value hedges	(4,583)	1,530	(8,424)	2,841
Net realized and unrealized gains (losses) on derivative instruments	$ (19,896)	$ 969	$ (40,376)	$ (438)

The Company’s objectives in using these derivatives are explained in sections (d) and (e) of this note below.

6. Derivative Instruments (Continued)

(d)(i) Investment Related Derivatives

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

Investment Related Derivatives–Interest Rate Exposure

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

Investment Related Derivatives – Foreign Exchange Exposure

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

In addition, certain of the Company's investment managers may, subject to investment guidelines, enter into forward contracts where potential gains may exist. The Company has exposure to foreign currency exchange rate fluctuations through its operations and in its investment portfolio.

Investment Related Derivatives – Credit Exposure

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

Investment Related Derivatives – Financial Market Exposure

Stock index futures may be purchased within the Company's investment portfolio in order to create synthetic equity exposure and to add value to the portfolio with overlay strategies where market inefficiencies are believed to exist. The Company previously wrote a number of resettable strike swaps contracts relating to an absolute return index and diversified baskets of funds. Finally, from time to time, the Company may enter into other financial market exposure derivative contracts on various indices including, but not limited to, inflation and commodity contracts.

(d)(ii) Financial Operations Derivatives – Credit Exposure

The Company held credit derivative exposures through a limited number of contracts written as part of the Company's previous financial lines businesses, and through the Company's prior reinsurance agreements with Syncora, as described below. Following the secondary market sale of Syncora common shares, the Company retained some credit derivative exposures written by Syncora and certain of its subsidiaries through reinsurance agreements that had certain derivatives exposures embedded within them. The change in value of the derivative portion of the financial guarantee reinsurance agreements the Company had with Syncora was included in "Net (loss) income from operating affiliates." Following the closing of the Master Agreement during August 2008, as described in Item 8, Note 4 to the Consolidated Financial Statements, "Syncora Holdings Ltd.," in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, which terminated certain reinsurance and other agreements, these credit derivative exposures were eliminated by virtue of the commutation of the relevant reinsurance agreements.

6. Derivative Instruments (Continued)

(d)(ii) Financial Operations Derivatives – Credit Exposure (Continued)

As of June 30, 2010 and December 31, 2009 the remaining credit derivative exposures outside of the Company’s investment portfolio consisted of two contracts written by the Company, one, that provides credit protection on the senior tranches of a structured finance transaction and the other, a European project finance loan participation. The aggregate outstanding exposure for the two contracts is $254.5 million ($233.2 million principal and $21.2 million interest), and $271.7 million ($244.9 million principal and $26.8 million interest), weighted average contractual term to maturity of 5.5 years and 6.0 years, a total liability recorded of $25.9 million and $18.4 million, respectively.

The credit protection related to the structured finance transaction is a credit default swap executed in 2000. The underlying collateral is predominantly securitized pools of leveraged loans and bonds. The transaction is in compliance with most of the coverage tests except the mezzanine overcollateralization test. As a result, both interest and principal proceeds are currently redirected to amortize the senior most notes which reduces the Company’s exposure sooner than originally anticipated. Management continues to monitor its underlying performance and is comfortable with the collateral coverage. The European project finance loan participation benefits from an 80% deficiency guarantee from the German state and federal governments.

As of June 30, 2010, there were no reported events of default on these obligations. Credit derivatives are recorded at fair values, which are determined using either models developed by the Company or third party prices and are dependent upon a number of factors, including changes in interest rates, future default rates, credit spreads, changes in credit quality, future expected recovery rates and other market factors. The change resulting from movements in credit and credit quality spreads is unrealized as the credit derivatives are not traded to realize this resultant value.

(d)(iii) Other Non-Investment Derivatives

The Company entered into derivatives as part of its contingent capital facility including put options, interest rate swaps, and asset return swaps. These derivatives are recorded at fair value with changes in fair value recognized in earnings.

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

(e) Contingent Credit Features

Certain derivatives agreements entered into by the Company or its subsidiaries contain rating downgrade provisions that permit early termination of the agreement by the counterparty if collateral is not posted following failure to maintain certain credit ratings from one or more of the principal credit rating agencies. If the Company were required to early terminate such agreements due to rating downgrade, it could potentially be in a net liability position at time of settlement. The aggregate fair value of all derivatives agreements containing such rating downgrade provisions that were in a liability position on June 30, 2010 and December 31, 2009 was $28.6 million and $30.8 million, respectively. The Company has not been required to post collateral under any of these agreements as of June 30, 2010.

7. Share Capital

(a) Authorized and Issued

As described in further detail within Item 8, Note 21 to the Consolidated Financial Statements, “Share Capital,” in the Company’s Annual Report of Form 10-K for the year ended December 31, 2009, on February 15, 2009 following the maturity of the purchase contracts associated with the 7.0% equity security units, the Company issued 11,461,080 shares for net proceeds of approximately $745.0 million, which was used to retire the senior notes previously due February 2011, which had a fixed coupon of 5.25%.

(b) Redeemable Series C Preference Ordinary Shares

On February 12, 2010, the Company repurchased a portion of its outstanding Series C Preference Ordinary Shares which resulted in approximately 4.4 million Series C Preference Ordinary Shares with a liquidation value of $110.8 million being purchased by the Company for approximately $94.2 million. As a result, a book value gain of approximately $16.6 million was recorded in the first quarter of 2010 to common shareholders.

On March 26, 2009, the Company completed a cash tender offer for a portion of its outstanding Series C Preference Ordinary Shares that resulted in approximately 12.7 million Series C Preference Ordinary Shares with a liquidation value of $317.3 million being purchased by the Company for approximately $104.7 million plus accrued and unpaid dividends, combined with professional fees totaling $0.8 million. As a result, a book value gain of approximately $211.8 million was recorded in the first quarter of 2009 to common shareholders.

7. Share Capital (Continued)

(c) Stock Plans

The Company's performance incentive programs provide for grants of stock options, restricted stock, restricted stock units and performance units and stock appreciation rights. Share based compensation granted by the Company generally contains a vesting period of three or four years and certain awards will also contain performance conditions. The Company records compensation expense related to each award over its vesting period incorporating the best estimate of the expected outcome of performance conditions where applicable. Compensation expense is generally recorded on a straight line basis over the vesting period of an award. See Item 8, Note 21 to the Consolidated Financial Statements, "Share Capital," in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 for further information on the Company's performance incentive programs and associated accounting.

During the six months ended June 30, 2010, the Company granted approximately 0.9 million stock options with a weighted-average grant date fair value of $9.32 per option. The fair value of the options issued was estimated on the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions:

Dividend yield	3.25%
Risk free interest rate	2.73%
Volatility	72.5%
Expected lives	6.0 years

During the six months ended June 30, 2010, the Company granted approximately 1.1 million restricted stock units to officers of the Company and its subsidiaries with an aggregate grant date fair value of approximately $20.2 million. Each restricted stock unit represents the Company's obligation to deliver to the holder one Class A Ordinary Share upon satisfaction of the three year vesting term. Restricted stock units are granted at the closing market price on the day of grant and entitle the holder to receive dividends declared and paid in the form of additional Class A Ordinary Shares contingent upon vesting.

During the six months ended June 30, 2010, the Company granted approximately 1.5 million performance units (representing a potential maximum share payout of approximately 3.1 million Class A Ordinary Shares) to certain employees with an aggregate grant date fair value of approximately $26.3 million. The performance units vest after three years and entitle the holder to shares of the Company's stock. There are no dividend rights associated with the performance units. Each grant of performance units has a target number of shares, with final payouts ranging from 0% to 200% of the grant amount depending upon a combination of corporate and business segment performance along with each employee's continued service through the vest date. Performance targets are based on relative and absolute financial performance metrics.

In connection with, and effective upon, the completion of the Redomestication, XL-Ireland assumed the existing liabilities, obligations and duties of XL-Cayman under the NAC Re Corp. 1989 Stock Option Plan (the "1989 Plan"), the XL Capital Amended and Restated 1991 Performance Incentive Program (the "1991 Program"), the XL Capital 1999 Performance Incentive Program for Employees (the "1999 Program"), the XL Capital Ltd Directors Stock & Option Plan (the "Directors Plan"), the XL Capital Ltd 2009 Cash Long-term Program (the "2009 Program"), the XL Capital Supplemental Deferred Compensation Plan (the "DC Plan," and together with the 1989 Plan, 1991 Program, the 1999 Program, the Directors Plan and the 2009 Program, the "Programs"). Furthermore, in connection with, and effective upon, the completion of the Redomestication, the Programs have been amended by XL-Cayman, among other things, (i) to provide that XL-Ireland and its Board of Directors will succeed to all powers, authorities and obligations of XL-Cayman and its Board of Directors under each Program, (ii) to provide that the securities to be issued pursuant to each Program will consist of ordinary shares of XL-Ireland and (iii) otherwise to reflect the completion of the Redomestication.

8. XL Capital Finance (Europe) plc

XL Capital Finance (Europe) plc ("XLCFE") is a wholly owned finance subsidiary of the Company. In January 2002, XLCFE issued $600.0 million par value 6.5% Guaranteed Senior Notes due January 2012. These Notes are fully and unconditionally guaranteed by the Company. XL Capital Ltd's ability to obtain funds from its subsidiaries is subject to certain contractual restrictions, applicable laws and statutory requirements of the various countries in which the Company operates including Bermuda, the U.S. and the U.K., among others. Required statutory capital and surplus for the principal operating subsidiaries of the Company was $7.0 billion as of December 31, 2009.

On June 30, 2010, XL-Cayman entered into the Supplemental Indenture (the "XLCFE Supplemental Indenture") to the Indenture (the "XLCFE Indenture"), dated as of January 10, 2002, by and among XLCFE, XL-Cayman and State Street Bank and Trust Company. The XLCFE Supplemental Indenture provides for, among other things, the assumption of XL-Cayman's obligations under the guarantee of obligations under the XLCFE Indenture and the securities issued pursuant thereto by XL Company Switzerland GmbH.

9. Related Party Transactions

At June 30, 2010 and December 31, 2009, the Company owned non-controlling stakes in eight and nine independent investment management companies ("Investment Manager Affiliates") totaling $160.1 million and $210.7 million, respectively. The Company seeks to develop relationships with specialty investment management organizations, generally acquiring an equity interest in the business. The Company also invests in certain of the funds and limited partnerships and other legal entities managed by these affiliates and through these funds and partnerships pays management and performance fees to the Company's Investment Manager Affiliates.

In the normal course of business, the Company enters into certain quota share reinsurance contracts with a subsidiary of one of its other strategic affiliates, ARX Holding Corporation. During the quarter ended June 30, 2010, these contracts resulted in reported net premiums of $8.2 million, net paid claims of $5.2 million and reported acquisition costs of $6.0 million. During the same period in 2009, these contracts resulted in reported net premiums of $15.9 million, net paid claims of $5.4 million and reported acquisition costs of $6.1 million. Management believes that these transactions are conducted at market rates consistent with negotiated arms-length contracts.

In the normal course of business, the Company enters into cost sharing and service level agreement transactions with certain other strategic affiliates, which management believes to be conducted consistent with arms-length rates. Such transactions, individually and in the aggregate, are not material to the Company's financial condition, results of operations and cash flows.

10. Variable Interest Entities

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

The Company invests in CDOs, and other structured investment vehicles that are issued through variable interest entities as part of the Company's investment portfolio. The activities of these variable interest entities are generally limited to holding the underlying collateral used to service investments therein. Management has evaluated the nature of the Company's involvement in such entities and has concluded that the Company is not the primary beneficiary of these variable interest entities as contemplated in current authoritative accounting guidance. The Company's involvement in these entities is passive in nature and management was not involved in either the establishment or arrangement of these entities. Management does not believe that the Company has the power to direct activities, such as asset selection and collateral management, which most significantly impact the entity's economic performance. The Company's financial results are impacted by the changes in fair value of the variable interest entities consistent with the accounting policies applied to invested assets. For further details on the nature of the Company's investment portfolio, in particular mortgage and asset backed securities which typically represent interests in variable interest entities, see Item 8, Note 9 to the Consolidated Financial Statements, "Investments," in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

The Company has utilized variable interest entities in certain instances as a means of accessing contingent capital. The Company has utilized unconsolidated entities in the formation of contingent capital facilities. The Company's interest in Stoneheath Re ("Stoneheath") represents an interest in a variable interest entity; however, the Company is not the primary beneficiary as contemplated in that guidance. The Company's interest in such entities is as a contributor of variability and not an absorber of losses and, as such, the Company would not be considered the primary beneficiary. Given that there are no contractual requirements or intentions to enter into additional variable interests in this entity, management considers the likelihood of consolidating Stoneheath in the future to be remote. For further details regarding Stoneheath, see Item 8, Note 18 to the Consolidated Financial Statements, "Off-Balance Sheet Arrangements," in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

The Company has a limited number of remaining outstanding credit enhancement exposures including written financial guarantee and credit default swap contracts. The obligations related to these transactions are often securitized through variable interest entities. The Company is not the primary beneficiary of these variable interest entities as contemplated in current authoritative accounting guidance on the basis that management does not believe that the Company has the power to direct the activities, such as asset selection and collateral management, which most significantly impact each entity's economic performance. For further details on the nature of the obligations and the size of the Company's maximum exposure see Item 8, Note 2(r), "Recent Accounting Pronouncements," and Note 17, "Derivative Instruments," to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

10. Variable Interest Entities (Continued)

The credit exposures represent the most significant risks associated with the Company's involvement with variable interest entities and there have been no significant changes in the nature of the Company's involvement with variable interest entities during the six months ended June 30, 2010.

11. Computation of Earnings Per Ordinary Share and Ordinary Share Equivalent

(U.S. dollars and shares in thousands, except per share amounts) (Unaudited)	(Unaudited) Three Months Ended June 30,		(Unaudited) Six Months Ended June 30,	
	2010	2009	2010	2009
Basic earnings per ordinary share and ordinary share equivalents:				
Net income attributable to XL Capital Ltd	$ 194,005	$ 85,541	$ 337,885	$ 88,638
Less: preference share dividends	(2,194)	(5,592)	(34,694)	(42,126)
Plus: gain on redemption of Series C Preference Ordinary shares	—	—	16,616	211,816
Net income available to ordinary shareholders	$ 191,811	$ 79,949	$ 319,807	$ 258,328
Weighted average ordinary shares outstanding	342,056	342,154	342,049	339,155
Basic earnings per ordinary share & ordinary share equivalents outstanding	$ 0.56	$ 0.23	$ 0.93	$ 0.76
Diluted earnings per ordinary share and ordinary share equivalents:				
Net income attributable to XL Capital Ltd	$ 194,005	$ 85,541	$ 337,885	$ 88,638
Less: preference share dividends	(2,194)	(5,592)	(34,694)	(42,126)
Plus: gain on redemption of Series C Preference Ordinary shares	—	—	16,616	211,816
Net income available to ordinary shareholders	$ 191,811	$ 79,949	$ 319,807	$ 258,328
Weighted average ordinary shares outstanding — basic	342,056	342,154	342,049	339,155
Impact of share based compensation and certain conversion features	822	314	732	107
Weighted average ordinary shares outstanding — diluted	342,878	342,468	342,781	339,262
Diluted earnings per ordinary share & ordinary share equivalents outstanding	$ 0.56	$ 0.23	$ 0.93	$ 0.76
Dividends per ordinary share	$ 0.10	$ 0.10	$ 0.20	$ 0.20

12. Commitments and Contingencies

Financial and Other Guarantee Exposures

As part of the Company's legacy financial guarantee business, the Company's outstanding financial guarantee contracts as of June 30, 2010 included the reinsurance of 38 financial guarantee contracts with total insured contractual payments outstanding of $619.1 million ($493.4 million of principal and $125.7 million of interest) and having a remaining weighted-average contract period of 11.6 years. These contracts provide credit support for a variety of collateral types. The largest exposures are comprised of (i) $386.5 million of notional financial guarantee (including principal and interest) on a Chilean toll road structure where the Issuer has decided to prepay the debt and, therefore, the exposure has been eliminated in the third quarter of 2010; (ii) $70.6 million of notional financial guarantee on a collateralized fund obligation which is currently being wound-up in an orderly manner and where collateral cushion exceeds 60%; and (iii) the remaining $162.0 million of financial guarantees is comprised of 36 separate transactions with varying forms of underlying collateral, including pre-2000 vintage asset backed securities and municipal government bonds. The underlying financial guarantees are diversified and individually small.

The total gross claim liability and unearned premiums recorded at June 30, 2010 associated with the 38 contracts were $14.5 million and $0.6 million, respectively. Of the contractual exposure existing at June 30, 2010, the Company has reinsured the above mentioned Chilean toll road exposure with subsidiaries of Syncora, however, as of June 30, 2010 there are no gross claim liabilities or recoverables recorded relating to this exposure. Of the 38 contracts noted above, 3 contracts with total insured contractual payments outstanding of $13.1 million had experienced an event of default and were considered by the Company to be non-performing at June 30, 2010, while the remaining 35 contracts were considered to be performing at such date.

As of December 31, 2009, the Company's outstanding financial guarantee contracts included the reinsurance of 41 financial guarantee contracts with total insured contractual payments outstanding of $713.6 million ($568.2 million of principal and $145.4 million of interest) and having a remaining weighted-average contract period of 11.5 years. The total gross claim liability and unearned premiums recorded at December 31, 2009 were $14.5 million and $1.5 million, respectively. Of the contractual exposure existing at December 31, 2009, the Company had reinsured $423.8 million with subsidiaries of Syncora, however, as at December 31, 2009 there were no gross claims liabilities or recoverables recorded. Of the 41 contracts noted above, 3 contracts with total insured contractual payments outstanding of $16.1 million had experienced an event of default and were considered by the Company to be non-performing at December 31, 2009, while the remaining 38 contracts were considered to be performing at such date.

Surveillance procedures to track and monitor credit deteriorations in the insured financial obligations are performed by the primary obligors for each transaction on the Company's behalf. Information regarding the performance status and updated exposure values is provided to the Company on a quarterly basis and evaluated by management in recording claims reserves.

On June 28, 2010, the Company's subsidiary XL Insurance (Bermuda) Ltd ("XLI") completed a commutation, termination and release agreement (the "Termination Agreement") with European Investment Bank ("EIB") which fully extinguishes and terminates all of the guarantees issued to EIB by XLI in connection with financial guaranty policies between certain subsidiaries of Syncora Holdings Ltd. (formerly Security Capital Assurance Ltd, "Syncora Holdings") and EIB. These guarantees were provided for the benefit of EIB relating to project finance transactions comprised of transportation, school and hospital projects with an average rating of BBB, written between 2001 and 2006 with anticipated maturities ranging between 2027 and 2038. The guarantees had been accounted for under Accounting Standards Codification ("ASC") section 460-10, *Guarantees* (previously FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.")

Under the Termination Agreement, XLI paid $38 million to EIB, and all of XLI's exposures under the EIB guarantees, with aggregate par outstanding of approximately $900 million, were eliminated. In addition, a further $0.5 million was paid to EIB for expenses in relation to the termination. Pursuant to the obligations of Syncora Holdings and its affiliates (collectively "Syncora") under the Master Commutation, Release and Restructuring Agreement (the "Master Agreement"), dated as of July 28, 2008, as amended, among XLI and affiliates, Syncora, and certain of Syncora's credit default swap counterparties, Syncora paid XLI $15 million subsequent to June 30, 2010 (of the total $38 million payment). The net cost of this transaction is reflected in the Company's Consolidated Statement of Income as "Loss on Termination of Guarantee". For further historical information regarding the above-mentioned EIB guarantees and the Master Agreement, refer to Note 4 to the Consolidated Financial Statements, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

13. Taxation

During the first six months of 2010, the Company revised its capital strategy such that it is no longer able to positively assert that all earnings arising within the United States will be permanently reinvested in that jurisdiction. As a result, the effective tax rate for the period includes a provision for withholding tax on certain earnings arising in the United States. The impact of this change on the estimated effective rate for the six months ended is an increase of approximately 0.5%.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

On July 1, 2010, XL Group plc, an Irish public limited company ("XL Ireland"), and XL Group plc (formerly, XL Capital Ltd), a Cayman Islands exempted company ("XL-Cayman"), completed a redomestication transaction in which all of the ordinary shares of XL-Cayman were exchanged for all of the ordinary shares of XL-Ireland. As a result, XL-Cayman became a wholly owned subsidiary of XL-Ireland. Unless the context otherwise indicates, references in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" to "XL Group" include XL-Ireland and its consolidated subsidiaries; references to the "Company" include XL-Cayman and its consolidated subsidiaries prior to July 1, 2010.

The following is a discussion of XL Group's financial condition and liquidity and results of operations. Certain aspects of XL Group's business have loss experience characterized as low frequency and high severity. This may result in volatility in both XL Group's and an individual segment's results of operations and financial condition.

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

This discussion and analysis should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited Consolidated Financial Statements and notes thereto, presented under Item 7 and Item 8, respectively, of the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Executive Overview

See "Executive Overview" in Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Results of Operations and Key Financial Measures

The following table presents an analysis of the Company's net income available to ordinary shareholders and other financial measures (described below) for the three and six months ended June 30, 2010 and 2009:

(U.S. dollars and shares in thousands, except per share amounts) *(Unaudited)*	**(Unaudited) Three Months Ended June 30,**		**(Unaudited) Six Months Ended June 30,**	
	2010	**2009**	**2010**	**2009**
Net income attributable to ordinary shareholders	$ 191,811	$ 79,949	$ 319,807	$ 258,328
Earnings per ordinary share – basic	$ 0.56	$ 0.23	$ 0.93	$ 0.76
Earnings per ordinary share – diluted	$ 0.56	$ 0.23	$ 0.93	$ 0.76
Weighted average number of ordinary shares and ordinary share equivalents – basic	342,056	342,154	342,049	339,155
Weighted average number of ordinary shares and ordinary share equivalents – diluted	342,878	342,468	342,781	339,262
Change in fully diluted book value per ordinary share	1.36	3.87	3.14	3.43

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

(U.S. dollars and shares in thousands, except per share amounts) (Unaudited)	(Unaudited) Three Months Ended June 30, 2010	(Unaudited) Three Months Ended June 30, 2009	(Unaudited) Six Months Ended June 30, 2010	(Unaudited) Six Months Ended June 30, 2009
Underwriting profit (loss) – P&C operations	$ 94,673	$ 89,439	$ 88,063	$ 193,291
Combined ratio – P&C operations	92.2%	93.0%	96.4%	92.6%
Net investment income – P&C operations	$ 222,544	$ 237,887	$ 446,183	$ 500,347
Annualized return on average shareholders' equity	8.3%	5.5%	7.1%	8.9%

	(Unaudited) June 30, 2010	December 31, 2009
Book value per ordinary share	$ 27.79	$ 24.64
Fully diluted book value per ordinary share (1)	$ 27.74	$ 24.60

(1) Fully diluted book value per ordinary share is a non-GAAP measure and represents book value per ordinary share combined with the impact from dilution of share based compensation including in-the-money stock options and certain conversion features at any period end. The Company believes that fully diluted book value per ordinary share is a financial measure important to investors and other interested parties who benefit from having a consistent basis for comparison with other companies within the industry. However, this measure may not be comparable to similarly titled measures used by companies either outside or inside of the insurance industry.

Key Financial Measures

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

One way that the Company evaluates the performance of its insurance and reinsurance operations is the underwriting profit or loss. The Company does not measure performance based on the amount of gross premiums written. Underwriting profit or loss is calculated from premiums earned less net losses incurred and expenses related to underwriting activities. The Company's underwriting profit for the three month period ended June 30, 2010 was primarily reflective of the combined ratio discussed below.

Combined ratio – P&C operations

The combined ratio for P&C operations is used by the Company and many other insurance and reinsurance companies as another measure of underwriting profitability. The combined ratio is calculated from the net losses incurred and underwriting expenses as a ratio of the net premiums earned for the Company's insurance and reinsurance operations. A combined ratio of less than 100% indicates an underwriting profit and greater than 100% reflects an underwriting loss. The Company's combined ratio for the six months ended June 30, 2010, is higher than the same period in the previous year, primarily as a result of an increase in the loss and loss expense ratio, partially offset by a decrease in the underwriting expense ratio. The loss and loss expense ratio has increased as a result of higher levels of catastrophe losses in both the insurance and reinsurance segments. The decreased underwriting expense ratio is reflective of the additional costs incurred in 2009 associated with the Company's restructuring activities.

Net investment income – P&C operations

Net investment income related to P&C operations is an important measure that affects the Company's overall profitability. The largest liability of the Company relates to its unpaid loss reserves, and the Company's investment portfolio provides liquidity for claims settlements of these reserves as they become due. Thus, a significant part of the investment portfolio is invested in fixed income securities. Net investment income is influenced by a number of factors, including the amounts and timing of inward and outward cash flows, the level of interest rates and credit spreads and changes in overall asset allocation. Net investment income related to P&C operations decreased by $54.2 million during the first half of 2010 as compared to the same period in the prior year. Overall, portfolio yields have decreased as a result of the impact of declines in U.S. interest rates, and particularly the impact of decreased U.S. Dollar Libor on the Company's floating rate securities previously supporting the GIC and funding agreement business. In addition, the Company increased its holdings in lower-yielding cash, government and agency RMBS securities in connection with its investment portfolio de-risking efforts as the Company re-aligned its portfolio to one more typical of a P&C portfolio.

Book value per ordinary share

Management also views the change in the Company's book value per ordinary share as an additional measure of the Company's performance. Book value per ordinary share is calculated by dividing ordinary shareholders' equity by the number of outstanding ordinary shares at any period end. Book value per ordinary share is affected primarily by the Company's net income (loss), by any changes in the net unrealized gains and losses on its investment portfolio and currency translation adjustments and also the impact of any share repurchase or issuance activity.

Book value per ordinary share increased by $3.15 in the six months ended June 30, 2010 as compared to an increase of $3.45 during the first six months of 2009. During the first half of 2010, there was a decrease in net unrealized losses of $1.0 billion, net of tax. The increasing investment fair values was due in large part to declining interest rates during the first half of 2010, which was partially offset by the impact of modest year-to-date widening of credit spreads in certain asset classes. In addition, book value per ordinary share increased as a result of net income attributable to ordinary shareholders increasing by $61.5 million during the first half of 2010 compared to the first half of 2009. This increase was comprised of an increase in Net Income attributable to XL Capital Ltd of $249.2 million offset by decrease of $195.2 million in the gains associated with the two separate purchases of portions of the Company's Redeemable Series C Preference Ordinary Shares that were completed during the first half of each of 2010 and 2009.

As noted above, fully diluted book value per ordinary share represents book value per ordinary share combined with the impact from dilution of share based compensation including in-the-money stock options and certain other share based compensation units and certain conversion features at any period end. Fully diluted book value per ordinary share increased by $3.14 and increased by $3.43 during the six months ended June 30, 2010 and 2009, respectively, as a result of the factors noted above.

Annualized return on average ordinary shareholders' equity

Return on average ordinary shareholder's equity ("ROE") is another financial measure that management considers important in evaluating the Company's operating performance. ROE is calculated by dividing the net income for any period by the average of the opening and closing ordinary shareholders' equity. The Company establishes minimum target ROEs for its total operations, segments and lines of business. If the Company's minimum ROE targets over the longer term are not met with respect to any line of business, the Company seeks to modify and/or exit these lines. In the first half of 2010, ROE was 7.1%, 1.8 percentage points lower than the same period in the prior year when it was 8.9%, mainly as a result of significantly higher equity levels during 2010 following the increase in value of the Company's investment portfolio.

Significant Items Affecting the Results of Operations

The Company's net income and other financial measures as shown above for the three and six months ended June 30, 2010 have been affected by, among other things, the following significant items:

1) The impact of natural catastrophes and large loss events in 2010;

2) Market movement impacts on the Company's investment portfolio; and

3) Continuing competitive factors impacting the underwriting environment.

1) The impact of natural catastrophes and large loss events in 2010

Net losses incurred were higher during the first six months of 2010 as compared to the same period in 2009 as a result of higher levels of natural catastrophe losses in the first and second quarters of 2010, mainly as a result of the Chilean Earthquake, European Windstorm Xynthia and U.S. tornadoes and hailstorm activity. In addition, property losses relating to the Deepwater Horizon oil rig contributed to the higher loss than compared to 2009.

In the first quarter, the Company recorded preliminary loss estimates related to the Chilean Earthquake, pretax and net of reinsurance of approximately $157.1 million, of which $78.0 million is attributable to the Insurance segment and $79.1 million to the Reinsurance segment. Management's preliminary loss estimates related to Windstorm Xynthia, pretax and net of reinsurance, were approximately $23.5 million almost exclusively in the Reinsurance segment.

In the second quarter, the Company recorded losses related to U.S. tornado and hailstorm activity of $13.2 million exclusively in the Insurance segment. In addition, there were revisions to the first quarter modeled estimates which increased the reported losses on the Chilean Earthquake by $7.2 million and reduced the reported losses on the European Windstorm Xynthia by $2.0 million. The majority of these loss revisions were attributable to the Reinsurance segment. The Company's June 30, 2010 estimates are based on its review of individual treaties and policies expected to be impacted along with the limited client data received to date and reflect current total insured market loss estimates, both from published sources and the Company's internal analysis. To date the Reinsurance segment has received very little reported loss information from its cedents and therefore has relied heavily on modeled loss estimates. These preliminary loss estimates correspond to expected insured market losses in the range of $6 billion to $8 billion for the earthquake in Chile and $1.5 billion to $3 billion for Windstorm Xynthia. Given there is currently a wide range of estimates for the extent of total economic and insured industry losses, the Company's loss estimates involve the exercise of considerable judgment and are, accordingly, subject to revision as additional information becomes available. Actual losses may differ materially from these preliminary estimates.

Management's preliminary loss estimates of the total property loss exposure to the Deepwater Horizon oil rig, net of reinsurance and reinstatement premium, were approximately $25.1 million, of which $12.5 million is attributable to the Insurance segment and $12.6 million to the Reinsurance segment.

The Company is a major writer of large, complex energy-related (re)insurance coverages and manages its exposure through, among other items, the purchase of reinsurance. The Company is in the process of assessing its potential liability exposure arising out of the Deepwater Horizon oil rig explosion in the Gulf. However, given that the facts are still developing, as well as the complexities of the nature of the event including indemnities from BP, other defenses to liability based on contract and common law and coverage issues, it is too early to estimate losses at this time.

For further details see the segment results in the "Income Statement Analysis" below.

2) Market movement impacts on the Company's investment portfolio

During the three months ended June 30, 2010, there was a flight to quality due to the European sovereign crisis, and interest rates declined in the Company's major markets, offset by slight widening of corporate credit spreads, particularly European financials. The net impact of the market conditions on the Company's investment portfolio for the quarter resulted in a decrease in net unrealized losses on available for sale investments as compared to March 31, 2010 of $0.4 billion. This represents approximately a 0.9% appreciation on average assets for the quarter ended June 30, 2010.

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

	Interest Rate Movement for the quarter ended June 30, 2010 (1) ('+'/'-' represents increases / decreases in interest rates)	**Credit Spread Movement for the quarter ended June 30, 2010 (2) ('+'/ '-' represents widening / tightening of credit spreads)**
United States	- 77 basis points (5 year Treasury)	+ 49 basis points (U.S. Corporate A rated)
	+ 24 basis points (3 month LIBOR)	- 32 basis points (U.S. Agency RMBS, AAA rated)
		+ 20 basis points (U.S. CMBS, AAA rated)
United Kingdom	- 58 basis points (10 year Gilt)	+ 26 basis points (UK Corporate, AA rated)
Euro-zone	- 52 basis points (5 year Bund)	+ 60 basis points (Europe Corporate, A rated)

(1) Source: Bloomberg Finance L.P.

(2) Source: Merrill Lynch Global Indices.

Net realized losses on investments in the quarter ended June 30, 2010 totaled $61.4 million, including net realized losses of approximately $57.4 million related to the impairment of certain of the Company's fixed income, equity and other investments, where the Company determined that there was an other-than-temporary decline in the value of those investments which was related to credit.

Of the $57.4 million, there were net realized losses of $25.0 million related to credit impairments on structured credit securities. Primarily these represented below investment grade non-Agency RMBS, including those with sub-prime and Alt-A collateral. A further $25.3 million in net realized losses related to intent to sell impairments of medium term notes backed primarily by investment grade European credit. The remaining impairment during the quarter was mainly related to currency loss impairments. Consistent with prior quarters, management continues to evaluate the impairment of the investment portfolio and satisfy itself that the remaining gross unrealized losses are temporary in nature.

3) Continuing competitive factors impacting the underwriting environment

Insurance

The market conditions within the core lines of business of the Insurance segment during the second quarter 2010 saw renewals and new business reflect persistent competitive pressures. Premium rates reflected an aggregate price decrease of approximately 1.8% for the entire book, largely influenced by 3-5% rate declines in the Insurance segment's professional lines and property books offset by single digit increases in certain niche specialty and casualty lines. Retention ratios have shown significant improvement over the prior year quarter as concerns over the Company's financial condition have dissipated. The overall Insurance segment retention rate has improved from 78% in the prior year quarter to 85% in the current year quarter which is back to historical levels. Gross premiums written in the second quarter of 2010 decreased $38.5 million or 3.4% versus the prior year quarter primarily driven by two programs that were exited last year. This reflects difficult trading environment in which the Company continues its disciplined underwriting approach to grow on a very selective basis and exit lines where margins are unacceptable.

The following table provides an analysis of gross premiums written, net premiums written and net premiums earned for the Insurance segment for the six month periods ended June 30, 2010 and 2009:

(U.S. dollars in thousands)	(Unaudited) Six Months Ended June 30, 2010			(Unaudited) Six Months Ended June 30, 2009		
	Gross Premiums Written	Net Premiums Written	Net Premiums Earned	Gross Premiums Written	Net Premiums Written	Net Premiums Earned
Casualty – professional lines	$ 607,462	$ 547,506	$ 665,126	$ 581,973	$ 538,468	$ 626,601
Casualty – other lines	530,573	344,042	309,549	563,034	352,661	315,158
Property catastrophe	(7)	115	115	(25)	1,762	1,762
Other property	423,418	214,510	205,555	407,761	186,398	214,072
Marine, energy, aviation, and satellite	357,533	302,873	274,490	344,182	266,055	287,483
Other specialty lines (1)	303,230	254,537	306,457	313,147	247,430	324,087
Other (2)	(5,539)	(5,854)	(609)	5,183	5,790	12,508
Structured indemnity	960	959	4,994	210	210	9,930
Total	$ 2,217,630	$ 1,658,688	$ 1,765,677	$ 2,215,465	$ 1,598,774	$ 1,791,601

(1) Other specialty lines within the Insurance segment includes: environmental, programs, equine, warranty, specie, middle markets and excess and surplus lines.

(2) Other includes credit and surety and other lines.

Reinsurance

Competitive market conditions persist for the Reinsurance segment. July 1 renewals saw U.S. catastrophe rates deteriorate on a risk adjusted basis by 10% and international rates decreasing by 5%. Gross premiums written increased by 11.8% during the three months ended June 30, 2010 compared with the three months ended June 30, 2009. The increase was primarily from new business, mainly in Bermuda, reinstatement premiums on non property business in Europe, and additional former clients who returned to the Company as concerns over the Company's financial condition dissipate. However, due to market conditions, the Reinsurance segment continues its philosophy of disciplined underwriting where it has, and will contract the portfolio if market conditions do not warrant deploying capital.

The following table provides an analysis of gross premiums written, net premiums written and net premiums earned for the Reinsurance segment for the six month periods ended June 30, 2010 and 2009:

(U.S. dollars in thousands)	(Unaudited) Six Months Ended June 30, 2010			(Unaudited) Six Months Ended June 30, 2009		
	Gross Premiums Written	Net Premiums Written	Net Premiums Earned	Gross Premiums Written	Net Premiums Written	Net Premiums Earned
Casualty – professional lines	$ 147,285	$ 147,331	$ 107,385	$ 119,465	$ 119,466	$ 124,129
Casualty – other lines	149,874	147,757	115,453	129,713	124,880	123,443
Property catastrophe	321,649	283,645	165,511	295,896	251,341	146,174
Other property	416,495	322,564	228,688	431,843	324,927	283,096
Marine, energy, aviation, and satellite	82,349	74,243	42,641	62,259	58,988	41,614
Other (1)	94,035	76,825	54,844	126,559	106,995	92,037
Structured indemnity	76	76	(285)	(1,782)	(1,782)	1,342
Total	$ 1,211,763	$ 1,052,441	$ 714,237	$ 1,163,953	$ 984,815	$ 811,835

(1) Other includes employers' liability, surety, political risk and other lines.

Other Key Focuses of Management

Throughout the latter part of 2009 and into 2010, the Company remains focused on, among other things, simplifying the Company's business model to focus on core P&C business and enhancing its enterprise risk management capabilities. Details relating to these initiatives are discussed in Other Key Focuses of Management in Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009. That discussion is updated with the disclosures set forth below.

Redomestication to Ireland from the Cayman Islands (the "Redomestication")

On July 1, 2010, XL Capital Ltd changed its name to XL Group Ltd. In addition, on July 1, 2010, XL Group plc, an Irish public limited company ("XL Ireland"), and XL Group plc (formerly, XL Capital Ltd), a Cayman Islands exempted company ("XL-Cayman"), completed a redomestication transaction in which all of the ordinary shares of XL-Cayman were exchanged for all of the ordinary shares of XL-Ireland. As a result, XL-Cayman became a wholly owned subsidiary of XL-Ireland. On July 23, 2010, the Irish High Court approved XL Group plc's creation of distributable reserves, subject to the completion of certain formalities under Irish Company law. These formalities are expected to be completed in early August 2010.

Capital Management

Fundamental to supporting the Company's business model is its ability to underwrite business, which is largely dependent upon the quality of its claims paying and financial strength ratings as evaluated by independent rating agencies. As a result, in the event that the Company is downgraded, its ability to write business as well as its financial condition and/or results of operations, could be adversely affected. See Item 1, "Business – Ratings" in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 for further information regarding rating actions by the various rating agencies, as well as details regarding the Company's financial strength and debt ratings.

In relation to the Company's capital position, on February 12, 2010, the Company redeemed approximately 4.4 million Series C Preference Ordinary Shares with a liquidation value of $110.8 million for approximately $94.2 million. As a result, a book value gain of approximately $16.6 million was recorded in the first quarter of 2010 to common shareholders.

Risk Management

XL Group's risk appetite framework guides its strategies relating to, among other things, capital preservation, earnings volatility, net worth at risk, operational loss, liquidity standards, capital rating and capital structure. This framework also addresses XL Group's tolerance to risks from material individual events (e.g., natural or man made catastrophes such as terrorism), XL Group's investment portfolio, realistic disaster scenarios that cross multiple lines of business and from risks related to some or all of the above that may actualize concurrently, with the objective of preserving XL Group's capital base.

In relation to event risk management, XL Group establishes net underwriting limits for individual large events as follows:

1. XL Group imposes limits for each peril region/event type at a 1% exceedance probability. If XL Group was to deploy the full limit, for any given peril region/event type, there would be a 1% probability that an event would occur during the next year which would result in a net underwriting loss in excess of the limit.
2. XL Group also imposes limits for each natural catastrophe peril region at a 1% tail value at risk ("TVaR") probability. This statistic indicates the average amount of net loss expected to be incurred given that a loss above the 1% exceedance probability level has occurred.
3. XL Group also imposes limits for certain other event types at a 0.4% exceedance probability. If XL Group were to deploy the full limit, for any given event type, there would be a 0.4% probability that an event would occur during the next year which would result in a net underwriting loss in excess of the limit.

For planning purposes and to calibrate risk tolerances for business to be written during 2010, XL Group set its underwriting limits as a percent of September 30, 2009 Tangible Shareholders' Equity (hereafter, "Tangible Shareholders' Equity"). Tangible Shareholders' Equity is defined as Total Shareholders' Equity less Goodwill and Other Intangible Assets. These limits may be recalibrated, from time to time, to reflect material changes in Total Shareholders' Equity that have occurred since September 30, 2009, at the discretion of management and as overseen by the Board.

Per event 1% exceedance probability underwriting limits for "Tier 1 event types", which include natural catastrophes, terrorism and other realistic disaster scenarios, are set at a level not to exceed approximately 15% of Tangible Shareholders' Equity.

Per event 1% TVaR underwriting limits for certain peak natural catastrophe peril regions approximate 20% of Tangible Shareholders' Equity. 1% TVaR underwriting limits for non-peak natural catastrophe peril regions are set below the per event 1% TVaR limits described above.

Per event 1% exceedance probability underwriting limits for "Tier 2 event types", which include country risk, longevity risk and pandemic risk, are set at a level not to exceed 7.5% of Tangible Shareholders' Equity.

Per event 0.4% exceedance probability underwriting limits for "Tier 2 event types" are set at a level not to exceed 15% of Tangible Shareholders' Equity. The 0.4% exceedance probability limit is used for Tier 2 event types rather than a TVaR measure due to the difficulty in estimating the full distribution of outcomes in the extreme tail of the distribution for these risk types as required for the TVaR measure.

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

In setting underwriting limits, XL Group also considers such factors as:

§ Correlation of underwriting risk with other risks (e.g. asset/investment risk, operational risk, etc.);

§ Model risk and robustness of data;

§ Geographical concentrations;

§ Exposures at lower return periods;

§ Expected payback period associated with losses;

§ Projected share of industry loss; and

§ Annual aggregate losses at a 1% exceedance probability and at a 1% TVaR level on both a peril region/risk type basis as well as at the portfolio level.

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

§ Inaccurate assumption of event frequency and severity;

§ Inaccurate or incomplete data;

§ Changing climate conditions may add to the unpredictability of frequency and severity of natural catastrophes in certain parts of the world and create additional uncertainty as to future trends and exposures;

§ Future possible increases in property values and the effects of inflation may increase the severity of catastrophic events to levels above the modeled levels;

§ Natural catastrophe models incorporate and are critically dependent on meteorological, seismological and other earth science assumptions and related statistical relationships that may not be representative of prevailing conditions and risks, and may therefore misstate how particular events actually materialize, causing a material deviation between forecasted and actual damages associated with such events; and

§ A change in the judicial climate.

The above forecasts assume that amounts due from reinsurance and retrocession purchases are 100% collectible. There may be credit and/or other disputes associated with these potential receivables.

For the above and other reasons, the incidence and severity of catastrophes and other event types are inherently unpredictable and it is difficult to predict the timing of such events with statistical certainty or estimate the amount of loss any given occurrence will generate. As a consequence, there is material uncertainty around the Company's ability to measure exposures associated with individual events and combinations of events. This uncertainty could cause actual exposures and losses to deviate from those amounts estimated below, which in turn can create a material adverse effect on the Company's financial condition and results of operations and may result in substantial liquidation of investments, possibly at a loss, and outflows of cash as losses are paid.

The table below shows the Company's estimated per event net 1% and 0.4% exceedance probability exposures for certain peak natural catastrophe perils regions.

			1-in 100 Event		1-in 250 Event	
Geographical Zone *(U.S. dollars in millions)*	**Peril**	**Measurement Date of In-Force Exposures**	**Probable Maximum Loss (1)**	**Percentage of Shareholders' Equity as of June 30, 2010**	**Probable Maximum Loss (1)**	**Percentage of Shareholders' Equity as of June 30, 2010**
California	Earthquake	January 1, 2010	$ 553	5.3%	$ 864	8.2%
U.S.	Windstorm	January 1, 2010	846	8.1%	1,202	11.4%
Europe	Windstorm	January 1, 2010	397	3.8%	588	5.6%
Japan	Earthquake	April 1, 2010	187	1.8%	302	2.9%
Japan	Windstorm	April 1, 2010	138	1.3%	211	2.0%

(1) Probable maximum losses include secondary uncertainty which incorporates variability around the expected probable maximum loss for each event, does not represent the Company's maximum potential exposures and are pre tax.

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

Management of Legacy Financial Exposures

Over the past 18 months, the Company has focused on the management of certain legacy financial businesses, which were put into run-off in 2008. These businesses include certain outstanding written credit default swap and financial guarantee contracts. During the second quarter, management was successful in commuting the Company's exposure to the European Investment Bank, and continues to look for opportunities which make business sense to reduce and, where possible, terminate these types of exposures. These exposures and any related transactions are more fully described in Item 1, Note 6, "Derivative Instruments (d) (ii) – Financial Operations Derivatives – Credit Exposure" herein and Item 1, Note 12, "Financial and Other Guarantee Exposures" herein, respectively. The following is a summary of the outstanding exposures:

Form of Transaction *(U.S. dollars in millions)* *(Unaudited)*	**Principal and Interest Outstanding June 30, 2010**
Financial Guarantee (1)	$ 619.1
Credit Default Derivatives	254.5
Total Gross Exposure	$ 873.6
Reinsurance coverage – Syncora	(386.5)
Total Net Exposure (1)	$ 487.1
Current Reserves / Liabilities Reported	$ 40.4

(1) Included in these exposures is $386.5 million of notional exposure (including principal and interest) to a Chilean toll road structure as of June 30, 2010. The Issuer has decided to prepay the debt, and an Omnibus Agreement releasing the Company from its financial guarantees has been signed and will be held in escrow subject to the satisfaction of certain conditions precedent. Subject to the prepayment closing and the satisfaction of these conditions precedent, the Company expects to eliminate the $386.5 million in exposure relating to this transaction, representing another important step in our steady efforts to reduce our book of non-core business.

Regulatory Change

Management continues to actively monitor the various regulatory bodies and initiatives that impact XL Group globally, and assess the potential for significant impact on results or operations. The European Commission is in the process of implementing changes to the prudential regulation of European insurers, known as Solvency II, with a timeline to achieve full compliance by 2013. Solvency II is designed to impose economic risk-based solvency requirements across all EU Member States. Advice and implementation consists of three pillars: (1) Pillar I – quantitative capital requirements, based on a valuation of the entire balance sheet; (2) Pillar II – qualitative regulatory review, which includes governance, internal controls, enterprise risk management and supervisory review process, and (3) Pillar III – market discipline, which is accomplished through reporting of the insurer's financial condition to regulators and the public. Other jurisdictions such as Bermuda are in the process of implementing consistent changes to strengthen their capital and risk management requirements in order to be considered equivalent for purposes of group regulatory considerations. The Company has significant resources supporting the regulatory process, such as the Solvency II Quantitative Impact Studies, and these resources are also actively engaged in the implementation across XL Group.

Critical Accounting Policies and Estimates

See the discussion of the Company's Critical Accounting Policies and Estimates in Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Variable Interest Entities and Other Off-Balance Sheet Arrangements

For further information, see the discussion of the Company's variable interest entities and other off-balance sheet arrangements in Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009 and Item 1, Note 10, "Variable Interest Entities", to the Consolidated Financial Statements included herein.

Segment Results for the three months ended June 30, 2010 compared to the three months ended June 30, 2009

Following a streamlining of the Company's operating segments in the first quarter of 2009, the Company is organized into three operating segments: Insurance, Reinsurance and Life operations. The Company's general investment and financing operations are reflected in Corporate.

The Company evaluates the performance of both the Insurance and Reinsurance segments based on underwriting profit and the performance of its Life operations segment based on contribution. Other items of revenue and expenditure of the Company are not evaluated at the segment level for reporting purposes. In addition, the Company does not allocate investment assets by segment for its P&C operations. Investment assets related to the Company's Life operations and certain structured products included in the Insurance and Reinsurance segments are held in separately identified portfolios. As such, net investment income from these assets is included in the contribution from each of these segments.

Income Statement Analysis

Insurance

The Company's Insurance segment provides commercial property, casualty and specialty insurance products on a global basis. Products generally provide tailored coverages for complex corporate risks and include the following lines of business: property, casualty, professional liability, environmental liability, aviation and satellite, marine and offshore energy, equine, fine art and specie, excess and surplus lines and other insurance coverages including program business. These lines of business are divided across operating units: North America P&C, International P&C, Global Professional Lines and Global Specialty Lines.

The following table summarizes the underwriting results for this segment:

	(Unaudited) Three Months Ended June 30,		
(U.S. dollars in thousands)	2010	2009	% Change
Gross premiums written	$ 1,085,740	$ 1,124,220	(3.4)%
Net premiums written	757,424	766,606	(1.2)%
Net premiums earned	868,666	881,490	(1.5)%
Net losses and loss expenses	592,184	598,784	(1.1)%
Acquisition costs	92,236	112,430	(18.0)%
Operating expenses	163,005	167,931	(2.9)%
Underwriting profit (loss)	$ 21,241	$ 2,345	NM*
Net results – structured products	$ 2,940	$ 4,093	(28.2)%
Fee income and other	(4,337)	(3,220)	(34.7)%

* NM – Not meaningful

Gross premiums written decreased by 3.4% during the three months ended June 30, 2010 compared with the three months ended June 30, 2009. Gross premiums written decreased by 0.5% in local currency. The decrease was mainly driven by the termination of a large aerospace program in 2009 and the run-off of a North American P&C automobile warranty program, fewer long term agreements, as well as unfavorable foreign exchange impacts. In addition, continued challenging market conditions and strong competition still negatively impact new business and pricing across many lines. These decreases have been partially offset by improved retention rates across most lines of business, prior year premium adjustments in London Markets relating to the 2008 and 2009 underwriting years, strong new business in aviation and continued premium growth in specie, equine and upper middle market businesses.

Net premiums written decreased by 1.2% in the three month period ended June 30, 2010 compared with the three month period ended June 30, 2009. The modest decrease resulted from the gross written premium decreases outlined above partially offset by a reduction in ceded written premiums. Ceded written premiums decreased by 8.2% in the three month period ended June 30, 2010 compared with the three month period ended June 30, 2009 due largely to reinsurance savings relating to property and professional excess of loss treaties. In addition, certain premium adjustments and return premiums in aviation and property also gave rise to a positive variance on the second quarter of 2009.

Net premiums earned decreased by 1.5% in the three month period ended June 30, 2010 compared with the three month period ended June 30, 2009. The decrease primarily resulted from challenging market conditions and strong competition as outlined above, the planned exit of certain lines of business and the overall earn-out of lower net premiums written in the past twelve months partially offset by the reinsurance cost savings on the 2010 treaties for property and professional as already noted above.

The following table presents the ratios for this segment:

	(Unaudited) Three Months Ended June 30,	
	2010	2009
Loss and loss expense ratio	68.2%	67.9%
Underwriting expense ratio	29.4%	31.8%
Combined ratio	97.6%	99.7%

The loss and loss expense ratio includes net losses incurred for both the current quarter and any favorable or adverse prior year development of loss and loss expense reserves held at the beginning of the year. The following table summarizes the net (favorable) adverse prior year development relating to the Insurance segment for the three month periods ended June 30, 2010 and 2009:

	(Unaudited) Three Months Ended June 30,	
(U.S. dollars in millions)	2010	2009
Property	$ (3.6)	$ (5.7)
Casualty	20.4	5.6
Professional	(32.8)	(51.9)
Specialty and other	(17.5)	17.7
Total	$ (33.5)	$ (34.3)
Loss and loss expense ratio excluding prior year development	72.0%	71.8%

Excluding prior year development, the loss ratio for the three months ended June 30, 2010 increased by 0.2 loss percentage points as compared to the same period in 2009 due primarily to natural catastrophe losses occurring in the second quarter of 2010. The Chilean Earthquake, European Windstorm Xynthia and U.S. tornado and hailstorm activity contributed $2.2 million, $0.7 million and $13.2 million in losses respectively to the quarter. Excluding favorable prior year development, natural catastrophe losses and reinstatement premiums in both quarters, the loss ratio decreased by 1.7 points from 2009 to 2010 due largely to improved loss experience in property, environmental, European professional lines and aerospace.

Net favorable prior year reserve development of $33.5 million for the three months ended June 30, 2010 was mainly attributable to the following:

- For property lines, net prior year development during the quarter was $3.6 million favorable due to lower actual losses than estimated in the second quarter. The favorable development was $6.1 million from International P&C business offset by reserve strengthening of $2.5 million on the North America P&C business.

- For casualty lines, net prior year development during the quarter was $20.4 million unfavorable due mainly to a $15.7 million strengthening in the North American risk management lines where reserve assumptions have been revised to use actual development rather than industry benchmarks and in International P&C where there was an $8.3 million strengthening relating primarily to a 2009 transportation loss. The remainder of the unfavorable development was due to marginally worse than expected attritional loss activity offset by a decrease in the uncollectible reinsurance reserve from reduced exposures and lower estimated risk levels from the Swiss operations.

- For professional lines, net prior year development was $32.8 million favorable. The U.K. and U.S. professional lines contributed the majority with $55.1 million favorable development due to redundancies in most underwriting years 2006 and prior. Offsetting this was $13.6 million of reserve strengthening in the small and midsize professional services book from recent unfavorable loss experience in the miscellaneous and real estate books and $8.7 million from the architects programs in the U.S. and U.K. for underwriting years 2006 and 2007 due to higher than expected loss experience in recent quarters.

- For specialty and other lines, net prior year development was $17.5 million favorable mainly from the marine lines where there was better than expected experience on the cargo and hull books as well as a reduction in the provision for unrecoverable reinsurance due to favorable collection experience on 2001 and prior underwriting years.

The decrease in the underwriting expense ratio in the three months ended June 30, 2010, compared to the same period in 2009 was due to a decrease in the operating expense ratio of 0.2 points (18.8% as compared to 19.0%) and a decrease in the acquisition expense ratio of 2.2 points (10.6% as compared to 12.8%). The decrease in the operating expense ratio was as a result of cost savings associated with the Company's expense reduction initiatives announced in the third quarter of 2008 and first quarter of 2009, including changes to the Company's previously communicated operational transformation program. The decrease in the acquisition expense ratio is largely attributable to a favorable adjustment in guaranty fund assessments, partially offset by increased ceding commissions for U.S. aerospace.

Fee income and other decreased in the second quarter of 2010 as compared to the second quarter of 2009 mainly as a result of lower engineering fee income associated with the Company's loss prevention consulting services business coupled with other expenses in professional lines related to the cost of an endorsement facility with National Indemnity Company, under which National Indemnity Company issued endorsements to "Side A" directors and officers liability insurance policies underwritten by XL Specialty Insurance Company. For further information, see Note 11, "Other Investments" to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. During the first quarter of 2010, Management concluded that it will not require the $100 million extension to this endorsement facility and will not purchase the related payment obligation.

Net results from structured insurance products include certain structured indemnity contracts that are accounted for as deposit contracts. Net results from these contracts for the three months ended June 30, 2010 have decreased compared to the same period in 2009 mainly due to higher interest expense associated with an accretion adjustment recorded in the current quarter based on changes in expected cash flows on one of the larger deposit accounted transactions. Partially offset against this was structured products operating expense credit in the current quarter and continued favorable development in the liability interest rate hedges in place.

Reinsurance

The Company's Reinsurance segment provides casualty, property risk (including energy and engineering), property catastrophe, marine, aviation, and other specialty reinsurance on a global basis with business being written on both a proportional and non-proportional basis and in certain limited instances on a direct basis.

The following table summarizes the underwriting results for this segment:

	(Unaudited) Three Months Ended June 30,		
(U.S. dollars in thousands)	**2010**	**2009**	**% Change**
Gross premiums written	$ 421,340	$ 376,970	11.8%
Net premiums written	357,180	311,672	14.6%
Net premiums earned	347,647	400,259	(13.1)%
Net losses and loss expenses	154,981	180,844	(14.3)%
Acquisition costs	75,572	85,302	(11.4)%
Operating expenses	43,662	47,019	(7.1)%
Underwriting profit	$ 73,432	$ 87,094	(15.7)%
Net results – structured products	$ 5,776	$ 6,172	(6.4)%
Fee income and other	575	545	5.5%

Gross premiums written increased by 11.8% during the three months ended June 30, 2010 compared with the three months ended June 30, 2009. Gross premiums written increased by 0.9% in local currency. The increase was mainly due to new and recovered business and reinstatement premiums on non property business in Europe. Premiums relating to the Bermuda book increased by $26.4 million from new property quota share business and from a renewal of multi year structured transactions where all the written premiums were recorded at inception. South America premium growth was $16.1 million primarily in property other and marine lines while the North American and European markets experienced small decreases in premium (excluding reinstatement premiums) due to difficult market conditions with limited growth, unfavorable premium adjustments and cedants increasing their net retentions.

Net premiums written increased by 14.6% in the three month period ended June 30, 2010 compared with the three month period ended June 30, 2009. The increase resulted from the gross written premium increases outlined above coupled with a slight reduction in ceded written premiums. The decrease in ceded written premiums is due to decreases in Bermuda driven partially by a decrease in Common Account updates, and North America due to a reduction in volume associated with an agricultural program and partially offset by reinstatement premiums in Europe as a result of property losses relating to the Deepwater Horizon oil rig.

Net premiums earned decreased by 13.1% in the three month period ended June 30, 2010 compared with the three month period ended June 30, 2009. The decrease is a reflection of the overall reduction in net premiums written over the last 24 months and the resulting earn-out of these lower net premiums written.

The following table presents the ratios for this segment:

	(Unaudited) Three Months Ended June 30,	
	2010	2009
Loss and loss expense ratio	44.6%	45.2%
Underwriting expense ratio	34.3%	33.0%
Combined ratio	78.9%	78.2%

The loss and loss expense ratio includes net losses incurred for both the current year and any favorable or adverse prior year development of loss and loss expense reserves held at the beginning of the year. The following table summarizes the net (favorable) adverse prior year development relating to the Reinsurance segment for the three month periods ended June 30, 2010 and 2009:

	(Unaudited) Three Months Ended June 30,	
(U.S. dollars in millions)	2010	2009
Property and other short-tail lines	$ (27.9)	$ (36.3)
Casualty and other	(21.0)	(19.0)
Total	$ (48.9)	$ (55.3)
Loss and loss expense ratio excluding prior year development	58.6%	59.0%

Excluding prior year development, the loss ratio for the quarter ended June 30, 2010 decreased by 0.4 loss percentage points as compared to the quarter ended June 30, 2009. Excluding favorable prior year development, catastrophe losses and reinstatement premiums in both quarters, the loss ratio decreased by 0.8 percentage points from 2009 to 2010. These improvements relate primarily to changes in business mix.

Net favorable prior year reserve development for the Reinsurance segment of $48.9 million for the quarter ended June 30, 2010 was mainly attributable to the following:

- Net favorable prior year development of $27.9 million for the short-tailed lines in the quarter and details of these by specific lines are as follows:
  - $7.7 million in favorable property catastrophe development due mainly to one contract in Europe where higher recoveries reduced the overall exposure on the 2002 underwriting year and from a reserve re-class to property other.
  - $12.1 million in favorable property other development due to reported losses coming in better than expected across most underwriting years, mainly in the U.S. book.
  - $8.1 million in marine and aviation lines due to favorable development of $4.5 million for aviation and $3.6 million for marine coming from the European and Bermuda books where there has been better than expected activity in most underwriting years.
- Net favorable prior year development of $21.0 million for the long-tailed lines in the quarter is wholly attributable to favorable casualty development as outlined below:
  - $13.5 million in favorable casualty development from better than expected activity in the European and U.S. books and favorable run-off of Australia exposures in the Asia Pacific book, partially offset by adverse development related to an account impacted by Italian hospital medical malpractice exposures for underwriting years 2001, 2004 and 2005.
  - $7.5 million in favorable other lines development relating primarily to favorable loss experience on bond exposures in the U.S.

The increase in the underwriting expense ratio in the three months ended June 30, 2010 compared to the same period in 2009 was due to a increase in the acquisition expense ratio of 0.4 points (21.7% as compared to 21.3% in 2009) and by an increase in the operating expense ratio of 0.9 points (12.6% as compared to 11.7% in 2009). The increase in the acquisition expense ratio was a result of reduced net earned premium compared to the reduction in acquisition costs. The increase in the operating expense ratio is attributable to the reduced net earned premium compared to the reduction in operating expenses.

Fee income and other was flat in the second quarter of 2010 as compared to the second quarter of 2009.

Net results from structured reinsurance products include certain structured indemnity contracts that are accounted for as deposit contracts. Results from these products for the three months ended June 30, 2010 decreased compared to the same period in 2009 mainly due to lower net investment income as a result of lower yields combined with a smaller investment base offset by a commutation gain realized in the current quarter on one of the structured indemnity transactions.

Life Operations

During 2009, the Company completed a strategic review of its life reinsurance business. In relation to this initiative, the Company sold the renewal rights to its Continental European short-term life, accident and health business in December 2008. The Company also announced in March 2009 that it would run-off its existing book of U.K. and Irish traditional life and annuity business, and not accept new business. In addition, during July 2009, the Company entered into an agreement to sell its U.S. life reinsurance business. The transaction closed during the fourth quarter of 2009. In December 2009, the Company entered into an agreement to novate and recapture a number of U.K. and Irish term assurance and critical illness treaties. The transaction closed during the fourth quarter of 2009. During the first quarter of 2010, the Company entered into an agreement to recapture three U.K. and Irish term assurance treaties, and this transaction closed during March 2010.

Prior to the decision being made to run-off the business, products offered included a broad range of underlying lines of life reinsurance business, including term assurances, group life, critical illness cover, immediate annuities and disability income. In addition, prior to selling the renewal rights, the products offered included short-term life, accident and health business. The segment also covers a range of geographic markets, with an emphasis on the U.K., U.S., Ireland and Continental Europe.

The following summarizes the contribution from this segment:

(U.S. dollars in thousands)	(Unaudited) Three Months Ended June 30, 2010	(Unaudited) Three Months Ended June 30, 2009	% Change
Gross premiums written	$ 92,838	$ 150,711	(38.4)%
Net premiums written	86,094	140,674	(38.8)%
Net premiums earned	86,448	147,951	(41.6)%
Claims and policy benefits	123,375	174,588	(29.3)%
Acquisition costs	12,752	25,540	(50.1)%
Operating expenses	2,765	4,269	(35.2)%
Net investment income	75,389	82,855	(9.0)%
Fee income and other	114	123	(7.3)%
Realized and unrealized gains (losses) on investments	(5,445)	(51,663)	NM*
Contribution from Life operations	$ 17,614	$ (25,131)	NM*

* NM – Not meaningful

The following table is an analysis of the Life operations gross premiums written, net premiums written and net premiums earned for the three month periods ended June 30, 2010 and 2009:

	(Unaudited) Three Months Ended June 30, 2010			(Unaudited) Three Months Ended June 30, 2009		
(U.S. dollars in thousands)	Gross Premiums Written	Net Premiums Written	Net Premiums Earned	Gross Premiums Written	Net Premiums Written	Net Premiums Earned
Other Life	$ 55,474	$ 55,525	$ 55,879	$ 109,648	$ 107,283	$ 114,560
Annuity	37,364	30,569	30,569	41,063	33,391	33,391
Total	$ 92,838	$ 86,094	$ 86,448	$ 150,711	$ 140,674	$ 147,951

Gross premiums written relating to other life business decreased by $54.2 million in the three months ended June 30, 2010 as compared to the same period in 2009 mainly due to a $33.4 million decrease as a result of the novation of a long-term care treaty and the novation and the recapture by cedants of a number of term assurance treaties during the second half of 2009 and at the end of the first quarter, 2010, $8.0 million from the sale of the U.S. business during the fourth quarter of 2009, a $9.0 million decrease from the short-term life, accident and health business in line with run-off expectations, and unfavorable foreign exchange movement of $8.7 million, offset by a $5.0 million increase from a block of U.S. term life business due to higher premiums relating to policies passing out of their guaranteed premium period. Gross premiums written relating to annuity business decreased by $3.7 million in the three months ended June 30, 2010 as compared to the three months ended June 30, 2009 mainly due to unfavorable foreign exchange rate movements. Ceded premiums written during the quarter ended June 30, 2010 decreased by $3.3 million as compared to the quarter ended June 30, 2009 as a result of both the prior year higher cession ratio associated with short-term life, accident and health business underwritten in the 2009 underwriting year, which occurred as part of the sale of the renewal rights as mentioned above, and the sale of the U.S. business, as well as favorable foreign exchange movement.

Net premiums earned in the second quarter of 2010 decreased 41.6% as compared to the second quarter of 2009. This decrease was consistent with the decrease in gross and net premiums written as described above.

Claims and policy benefit reserves decreased by $51.2 million or 29.3% in the three months ended June 30, 2010 as compared to the three months ended June 30, 2009, a decrease consistent with the decrease in gross premiums written associated with term assurance business as noted above, as well as the sale of the U.S. business during the fourth quarter of 2009, including favorable foreign exchange movements. Changes in claims and policy benefits include the movement in policy benefit reserves related to other contracts (such as immediate annuities) where investment assets were acquired with the assumption of the policy benefit reserves at the inception of the contract.

For the three months ended June 30, 2010, acquisition costs decreased by 50.1% as compared to the same period in 2009, largely as a result of the decrease in net premium written associated with the term assurance business as noted above, as well as lower acquisition costs associated with the run-off of the short-term life, accident and health business. Operating expenses decreased by 35.2% in the second quarter of 2010 as compared to the same period in the prior year due mainly to lower compensation expenses as a result of overall lower staffing levels.

Net investment income is included in the calculation of contribution from Life operations, as it relates to income earned on portfolios of separately identified and managed life investment assets and other allocated assets. Net investment income decreased by $7.5 million or 9.0% in the three months ended June 30, 2010, as compared to the same period in 2009, primarily as a result of foreign exchange impacts.

See below for an analysis of the Company's total realized losses on investments during the three months ended June 30, 2010.

Investment Activities

The following table illustrates the change in net investment income from P&C operations, net income from investment fund affiliates, net realized gains (losses) on investments and net realized and unrealized gains (losses) on investment derivative instruments for the three months ended June 30, 2010 and 2009:

	(Unaudited) Three Months Ended June 30,		
(U.S. dollars in thousands)	**2010**	**2009**	**% Change**
Net investment income – P&C operations	$ 222,544	$ 237,887	(6.4)%
Net income (loss) from investment fund affiliates (1)	19,084	37,086	(48.5)%
Net realized gains (losses) on investments (2)	(61,386)	(80,430)	NM*
Net realized and unrealized gains (losses) on investment and other derivative instruments	(19,896)	969	NM*

(1) The Company records the income related to alternative fund affiliates on a one month lag and the private investment fund affiliates on a three month lag in order for the Company to meet the accelerated filing deadlines.
(2) Results to June 30, 2009 include charges for OTTI related to the non-credit impairment of unrealized losses. From April 1, 2009, the non-credit impairment is excluded from realized losses.
* NM – Not meaningful

Net investment income related to P&C operations decreased in the second quarter of 2010 as compared to the second quarter of 2009 due primarily to declining portfolio yields. Overall, portfolio yields have decreased as a result of the impact of declines in U.S. interest rates, lower prevailing reinvestment yields and investment portfolio de-risking efforts.

Net income from investment fund affiliates decreased in the second quarter of 2010 compared to the second quarter of 2009. The results from the alternative funds in second quarter of 2010 were significantly lower than the exceptionally strong results in the Company's alternative funds in the second quarter of 2009, which reflected the challenging market conditions, principally in May. Improved results for the private investment portfolio due to a loss during the second quarter of 2009 helped offset the lower alternative portfolio returns.

The Company manages its investment grade fixed income securities in accordance with investment guidelines approved by the Finance Committee of the Board of Directors. Due to the unique nature of the underlying liabilities, customized benchmarks are used to measure investment performance and comparison to standard market indices is not meaningful. Investment performance is not monitored for certain assets primarily consisting of operating cash and special regulatory deposits. The following is a summary of the investment portfolio returns for the three months ended June 30, 2010 and 2009:

	(Unaudited) Three Months Ended June 30,	
	2010(1)	2009 (1)
Fixed income portfolios		
USD fixed income portfolio	2.1%	4.4%
GBP fixed income portfolio	2.2%	7.5%
EUR fixed income portfolio	2.0%	3.8%
Other portfolios		
Alternative portfolio (2)	1.0%	5.5%
Equity portfolio (3)	NM*	(2.0)%
High-Yield fixed income portfolio	0.2%	18.2%

(1) Portfolio returns are calculated by dividing the sum of net investment income or net income from investment affiliates, realized gains (losses) and unrealized gains (losses) by the average market value of each portfolio. Performance is measured in the underlying asset currency.
(2) Performance on the alternative portfolio reflects the three months ended May 31, 2010 and May 31, 2009, respectively.
(3) Equity portfolio is negligible in 2010 and accordingly, performance returns are not presented.
* NM – Not meaningful

Net Realized Gains and Losses and Other than Temporary Declines in the Value of Investments

Net realized losses on investments in the quarter ended June 30, 2010 included net realized losses of approximately $57.4 million related to the write-down of certain of the Company’s fixed income, equity and other investments. Impairment charges to March 31, 2009 include charges of OTTI related to the non-credit impairment of unrealized losses. From April 1, 2009, as a result of changes in GAAP, the non-credit impairment is excluded from net impairments. In addition, included in the net realized losses noted above are net realized losses of $4.0 million from sales of investments.

The significant components of the net impairment charges of $57.4 million consist of:

§ For structured credit securities, the Company recorded net impairments of $25.0 million for the quarter ended June 30, 2010. The Company determined that the likely recovery on these securities was below the amortized cost, and accordingly impaired the securities to the discounted value of the cash flows of these securities.

§ For corporate securities, excluding medium term notes backed primarily by investment grade European credit, the Company recorded negligible net impairments for the quarter ended June 30, 2010. The impairment charges consisted of below investment grade securities, with respect to which the Company considered impairment factors consistent with an equity impairment model, along with a debt impairment model, and accordingly recorded impairment charges to fair value, or determined that the securities in an unrealized loss position would be sold.

§ For equities, the Company recorded impairments of $0.4 million for the quarter ended June 30, 2010 because the security was impaired for more than 11 months.

§ The Company recorded impairments of $6.7 million related to currency losses for the quarter ended June 30, 2010.

§ The Company recorded impairments totaling $25.3 million in relation to medium term notes backed primarily by investment grade European credit as a result of its intent to sell these securities.

Net realized losses in the second quarter of 2009 included net realized losses of $85.0 million related to the write-down of certain of the Company’s fixed income, equity and other investments with respect to which the Company determined that there was an other-than-temporary decline in the value of those investments as well as net realized gains of $4.5 million from sales of investments. Of the other-than-temporary impairments, $30.2 million related to intent to sell securities, primarily representing exchanges of hybrid securities.

Net Realized and Unrealized Gains and Losses on Derivatives

Net realized and unrealized gains on investment derivatives for the three months ended June 30, 2010 resulted from the Company’s investment strategy to manage interest rate risk, foreign exchange risk and credit risk, and to replicate permitted investments. For further information, see Item 1, Note 6, “Derivative Instruments” herein as well Item 8, Note 2 of the Consolidated Financial Statements, “Significant Accounting Policies”, in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009.

Other Revenues and Expenses

The following table sets forth other revenues and expenses for the three months ended June 30, 2010 and 2009:

(U.S. dollars in thousands)	(Unaudited) Three Months Ended June 30, 2010	(Unaudited) Three Months Ended June 30, 2009	% Change
Net income (loss) from operating affiliates (1)	$ 21,013	$ 17,667	18.9%
Exchange (gains) losses	(32,276)	145,221	NM*
Amortization of intangible assets	464	464	NM*
Corporate operating expenses	22,793	32,219	(29.3)%
Interest expense (2)	38,551	42,912	(10.2)%
Income tax expense	42,976	16,045	NM*

(1) The Company generally records the income related to certain operating affiliates on a three month lag in order for the Company to meet accelerated filing deadlines.

(2) Interest expense does not include interest expense related to structured products as reported within the Insurance and Reinsurance segments and Corporate.

* NM – Not meaningful

The following table sets forth the net income (loss) from operating affiliates for the three months ended June 30, 2010 and 2009:

(U.S. dollars in thousands)	(Unaudited) Three Months Ended June 30, 2010	(Unaudited) Three Months Ended June 30, 2009	% Change
Net (loss) from financial operating affiliates	$ 543	$ 3,883	(86.0)%
Net income (loss) from investment manager affiliates	9,736	4,407	NM*
Net income from other strategic operating affiliates	10,734	9,377	14.5%
Total	$ 21,013	$ 17,667	18.9%

* NM – Not meaningful

Investment manager affiliate income increased during the second quarter of 2010 as compared to the same period in the prior year primarily as a result of more benign capital market conditions in the first quarter of 2010 compared to the challenging conditions for alternative asset managers reported in the first quarter of 2009.

Income from other strategic operating affiliates increased in the second quarter of 2010 as compared to the same period in the prior year mainly due to higher earnings reported in the second quarter of 2010 relating to an insurance affiliate which writes largely direct U.S. homeowners insurance and from the sale during the quarter of the Company's Brazilian joint venture ITAÚ XL Seguros Corporativos S.A. ("ITAU").

Foreign exchange gains in the quarter ended June 30, 2010 and losses in the quarter ended June 30, 2009 were due primarily to the change in the value of the U.S. dollar against certain European currencies, including the U.K. Sterling and the Euro, on certain inter-company balances and net underwriting liability balances.

Corporate operating expenses in the three months ended June 30, 2010 decreased compared to the three months ended June 30, 2009 primarily as a result of the restructuring costs incurred in 2009 as well as the cost savings achieved from these restructuring activities during the three months ended June 30, 2010.

Interest expense for the three months ended June 30, 2010 as compared to the same period in 2009 was lower mainly as a result of the interest associated retirement of the 2011 Senior Notes in February 2009. For more information on the Company's financial structure, see "Liquidity and Capital Resources."

The increase in the Company's income taxes in the quarter ended June 30, 2010, compared to the same period in 2009, arose principally from higher income generated in taxable jurisdictions in the quarter ended June 30, 2010.

Segment Results for the six months ended June 30, 2010 compared to the six months ended June 30, 2009

Insurance

The following table summarizes the underwriting results for this segment:

(U.S. dollars in thousands)	(Unaudited) Six months Ended June 30, 2010	2009	% Change
Gross premiums written	$ 2,217,630	$ 2,215,465	0.1%
Net premiums written	1,658,688	1,598,774	3.7%
Net premiums earned	1,765,677	1,791,601	(1.4)%
Net losses and loss expenses	1,240,503	1,213,998	2.2%
Acquisition costs	202,378	217,842	(7.1)%
Operating expenses	316,241	347,259	(8.9)%
Underwriting profit (loss)	$ 6,555	$ 12,502	(47.6)%
Net results – structured products	$ 8,579	$ 7,214	18.9%
Fee income and other	(8,123)	(4,220)	(92.5)%

Gross premiums written marginally increased by 0.1% during the six months ended June 30, 2010 compared with the six months ended June 30, 2009. Gross premiums written increased by 1.1% in local currency. The increase has been achieved despite continued challenging market conditions and strong competition which continues to negatively impact new business and pricing. This has been partially offset by improved retention rates across most lines of business as a result of the Company's stronger market position since the second quarter of 2009. More specifically, continued growth in U.S. general aviation, European professional, marine and upper middle market businesses has been offset by decreases in North America P&C lines mainly due to the run-off of a large U.S. automobile warranty program combined with lower new business volume and pricing and in specialty lines, due to the termination of an aviation program in 2009.

Net premiums written increased by 3.7% in the six month period ended June 30, 2010 compared with the six month period ended June 30, 2009. The increase resulted from the gross written premium increases outlined above coupled with the reduction in ceded written premiums. The decrease in ceded written premiums is largely related to specialty lines due to cost savings from a restructuring of the marine and specie global excess of loss reinsurance treaties as well as certain premium adjustments and return premiums in aviation and property also gave rise to a positive variance over 2009.

Net premiums earned decreased by 1.4% in the six month period ended June 30, 2010 compared with the six month period ended June 30, 2009. The decrease primarily resulted from planned exit of certain lines of business and the overall earn-out of lower net premiums written in the past twelve months.

The following table presents the ratios for this segment:

	(Unaudited) Six months Ended June 30, 2010	2009
Loss and loss expense ratio	70.3%	67.8%
Underwriting expense ratio	29.3%	31.5%
Combined ratio	99.6%	99.3%

The loss and loss expense ratio includes net losses incurred for both the current year and any favorable or adverse prior year development of loss and loss expense reserves held at the beginning of the year. The following table summarizes the net (favorable) adverse prior year development relating to the Insurance segment for the six month periods ended June 30, 2010 and 2009:

	(Unaudited) Six months Ended June 30,	
(U.S. dollars in millions)	**2010**	**2009**
Property	$ (27.6)	$ (14.7)
Casualty	13.4	8.6
Professional	(34.6)	(64.4)
Specialty and other	(17.6)	29.5
Total	$ (66.4)	$ (41.0)
Loss and loss expense ratio excluding prior year development	74.0%	70.1%

Excluding prior year development, the loss ratio for the six months ended June 30, 2010 increased by 3.9 loss percentage points as compared to the same period in 2009 due primarily to higher levels of natural catastrophe losses occurring in the first six months of 2010. The Chilean Earthquake, European Windstorm Xynthia and U.S. tornado and hailstorm activity contributed $80.2 million, $2.2 million and $13.2 million in losses respectively for the period. Excluding favorable prior year development, natural catastrophe losses and reinstatement premiums in both quarters, the loss ratio decreased by 1.2 points from 2009 to 2010 largely due to improved loss experience in property, environmental, European professional lines and aerospace as well as changes in business mix.

Net favorable prior year reserve development of $66.4 million for the six months ended June 30, 2010 was mainly attributable to the following:

§ For property lines, net prior year development in the six months was $27.6 million favorable due to lower actual losses than estimated in the first quarter for non-catastrophe exposures for North America P&C and International P&C business.

§ For casualty lines, net prior year development in the six months was $13.4 million unfavorable due mainly to a $15.7 million strengthening in the North American risk management lines where reserve assumptions have been revised to use actual development rather than industry benchmarks and in International P&C where there was an $8.3 million strengthening relating primarily to a 2009 transportation loss. The remainder of the unfavorable development was due to marginally worse than expected attritional loss activity offset by a decrease in the uncollectible reinsurance reserve from reduced exposures and lower estimated risk levels from the Swiss operations.

§ For professional lines, net prior year development was $34.6 million favorable with the majority of the development occurring in the second quarter as outlined above in the segment results for the three months ended June 30, 2010.

§ For specialty and other lines, net prior year development was $17.6 million favorable with the majority of the development occurring in the second quarter as outlined in the segment results for the three months ended June 30, 2010.

The decrease in the underwriting expense ratio in the six months ended June 30, 2010, compared to the same period in 2009 was due to a decrease in the operating expense ratio of 1.5 points (17.8% as compared to 19.3%), and a decrease in the acquisition expense ratio of 0.7 points (11.5% as compared to 12.2%). The decrease in the operating expense ratio was as a result of costs savings associated with the Company's expense reduction initiatives announced in the third quarter of 2008 and first quarter of 2009, including changes to the Company's previously communicated operational transformation program. The decrease in the acquisition expense ratio is attributable to changes in business mix partially offset by the impact of higher commission rates in certain professional and North American P&C lines.

Fee income and other decreased in the six months ended June 30, 2010 as compared to the same period in 2009 mainly as a result of lower engineering fee income associated with the Company's loss prevention consulting services business coupled with other expenses in professional lines related to the cost of an endorsement facility with National Indemnity Company, under which National Indemnity Company issued endorsements to "Side A" directors and officers liability insurance policies underwritten by XL Specialty Insurance Company. For further information, see Note 11, "Other Investments" to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. During the first quarter of 2010 Management concluded that it will not require the $100 million extension to this endorsement facility and will not purchase the related payment obligation.

Net results from structured insurance products include certain structured indemnity contracts that are accounted for as deposit contracts. Net results from these contracts for the six months ended June 30, 2010 have increased compared to the same period in 2009 mainly due to a structured products operating expense credit in the current quarter and continued favorable development in the liability interest rate hedges in place.

Reinsurance

The following table summarizes the underwriting results for this segment:

(U.S. dollars in thousands)	(Unaudited) Six months Ended June 30, 2010	2009	% Change
Gross premiums written	$ 1,211,763	$ 1,163,953	4.1%
Net premiums written	1,052,441	984,815	6.9%
Net premiums earned	714,237	811,835	(12.0)%
Net losses and loss expenses	398,862	355,913	12.1%
Acquisition costs	148,177	181,026	(18.1)%
Operating expenses	85,690	94,107	(8.9)%
Underwriting profit	$ 81,508	$ 180,789	(54.9)%
Net results – structured products	$ 8,252	$ 14,596	(43.5)%
Fee income and other	894	2,596	(65.6)%

Gross premiums written increased by 4.1% during the six months ended June 30, 2010 compared with the six months ended June 30, 2009. Gross premiums written increased by 2.1% in local currency. Premium growth was mainly due to the recapture of previously lost business as well as new business in Europe, Bermuda and Asia and loss related premium adjustments in Europe. Offsetting the growth was reduced premiums from a U.S. agricultural program due to a fall in winter wheat prices and reduced premiums from the exit of certain casualty facultative markets.

Net premiums written increased by 6.9% in the six months ended June 30, 2010 compared with the six months ended June 30, 2009. The increase resulted from the gross written premium increases outlined above coupled with the reduction in ceded written premiums. The decrease in ceded written premiums is due to the reduction in volume associated with the U.S. agricultural program already mentioned above, of which a significant portion has retroceded.

Net premiums earned decreased by 12.0% in the six months ended June 30, 2010 compared with the six months ended June 30, 2009. The decrease is a reflection of the overall reduction in net premiums written over the last 24 months and the resulting earn-out of these lower net premiums written.

The following table presents the ratios for this segment:

	(Unaudited) Six months Ended June 30, 2010	2009
Loss and loss expense ratio	55.8%	43.8%
Underwriting expense ratio	32.8%	33.9%
Combined ratio	88.6%	77.7%

The loss and loss expense ratio includes net losses incurred for both the current year and any favorable or adverse prior year development of loss and loss expense reserves held at the beginning of the year. The following table summarizes the net (favorable) adverse prior year development relating to the Reinsurance segment for the six months ended June 30, 2010 and 2009:

(U.S. dollars in millions)	(Unaudited) Six months Ended June 30, 2010	2009
Property and other short-tail lines	$ (77.9)	$ (94.2)
Casualty and other	(24.8)	(44.5)
Total	$ (102.7)	$ (138.7)
Loss and loss expense ratio excluding prior year development	70.2%	60.9%

Excluding prior year development, the loss ratio for the six months ended June 30, 2010 increased by 9.3 loss percentage points as compared to the six months ended June 30, 2009 attributable primarily to the impact of catastrophe losses in the first six months of 2010 compared to the first six months of 2009. The Chilean Earthquake and European Windstorm Xynthia contributed $84.1 million and $19.3 million in losses respectively in the first quarter of 2010 with the property losses relating to the Deepwater Horizon oil rig contributing $12.6 million losses in the second quarter of 2010. Excluding favorable prior year development, catastrophe losses and reinstatement premiums in both six month periods ending June 30, the loss ratio decreased by 2.1 percentage points from 2009 to 2010. This improvement relates to changes in business mix.

Net favorable prior year reserve development for the Reinsurance segment of $102.7 million for the six months ended June 30, 2010 was mainly attributable to the following:

- Net favorable prior year development of $77.9 million for the short-tailed lines in the six months ended June 30, 2010 and details of these by specific lines are as follows:
  - $21.2 million in favorable property catastrophe development due to reductions in expected loss ratios to attritional levels on the 2007, 2008 and 2009 underwriting years and also from one contract in Europe where higher recoveries reduced the overall exposure on the 2002 underwriting year.
  - $46.8 million in favorable property other development due to reported losses coming in better than expected across most underwriting years and geographies.
  - $9.9 million in marine and aviation lines due to favorable aviation development of $10.6 million partially offset by adverse marine development of $0.7 million related to adverse development on two claims occurring late in 2009.
- Net favorable prior year development of $24.8 million for the long-tailed lines for the six months ended June 30, 2010 and details of these by specific lines are as follows:
  - $1.2 million in favorable casualty development primarily driven by better than expected activity in casualty for most underwriting years in Europe, underwriting years 2002 and prior in North American and the Asia Pacific business for the Australia run-off book giving rise to favorable development of $17.3 million, $4.5 million and $4.5 million favorable activity, respectively. In addition, there was $6.9 million of favorable development primarily related to North American D&O exposures. Partially offsetting this is adverse development of $14.0 million related to a Bermuda account impacted by Italian hospital medical malpractice exposures for the 2007 underwriting year and unfavorable development from the London book where the bulk of this, $11.3 million, is from one cedant's Italian hospital medical malpractice exposures in underwriting years 2008 and prior.
  - $23.6 million in favorable other lines development primarily related to a reduction of $7.5 million in a political risks loss, $6.6 million releases related to non-proportional whole account contracts written in Lloyds syndicates and the reflection of the reinsurance-to-close ("RITC") process for years of account 2003 to 2006, $5.6 million in North American bond run-off exposures due to better than expected activity in underwriting years 2006 and prior and Latin America Surety releases related to better than expected loss experience across most underwriting years.

The decrease in the underwriting expense ratio for the six months ended June 30, 2010 compared to the same period in 2009 was due to a decrease in the acquisition expense ratio of 1.6 points (20.7% as compared to 22.3% in 2009) and partially offset by an increase in the operating expense ratio of 0.5 points (12.1% as compared to 11.6% in 2009). The decrease in the acquisition expense ratio was a result of reduced net earned premiums in relation to a large U.S. agricultural program which carries very low acquisition costs partially combined with the reinstatement premium adjustments. The marginal increase in the operating expense ratio is attributable to the reduced net earned premium compared to the reduction in operating expenses.

Fee income and other decreased in the first six months of 2010 as compared to the first six months of 2009, which included the sale of underwriting year 2009 renewal rights for the European life, accident and health business.

Net results from structured reinsurance products include certain structured indemnity contracts that are accounted for as deposit contracts. Results from these products for the six months ended June 30, 2010 decreased compared to the same period in 2009. This decrease was mainly due to higher interest expense associated with an accretion adjustment recorded in the first quarter of 2010 based on changes in expected cash flows on some structured indemnity contracts combined with lower net investment income as a result of lower yields and smaller investment base, partially offset by a commutation gain on one of the deposit accounted transactions which was realized in the second quarter.

Life Operations

The following summarizes the contribution from this segment:

(U.S. dollars in thousands)	(Unaudited) Six months Ended June 30, 2010	2009	% Change
Gross premiums written	$ 205,739	$ 285,823	(28.0)%
Net premiums written	190,760	262,259	(27.3)%
Net premiums earned	191,332	277,785	(31.1)%
Claims and policy benefits	247,118	332,547	(25.7)%
Acquisition costs	31,142	42,623	(26.9)%
Operating expenses	5,773	8,110	(28.8)%
Net investment income	155,733	160,377	(2.9)%
Fee income and other	154	174	(11.5)%
Realized and unrealized gains (losses) on investments	(9,858)	(126,313)	92.2%
Contribution from Life operations	$ 53,328	$ (71,257)	NM*

* NM – Not meaningful

The following table is an analysis of the Life operations gross premiums written, net premiums written and net premiums earned for the six month periods ended June 30, 2010 and 2009:

(U.S. dollars in thousands)	(Unaudited) Six months Ended June 30, 2010			(Unaudited) Six months Ended June 30, 2009		
	Gross Premiums Written	Net Premiums Written	Net Premiums Earned	Gross Premiums Written	Net Premiums Written	Net Premiums Earned
Other Life	$ 129,836	$ 128,760	$ 129,332	$ 208,571	$ 199,441	$ 214,967
Annuity	75,903	62,000	62,000	77,252	62,818	62,818
Total	$ 205,739	$ 190,760	$ 191,332	$ 285,823	$ 262,259	$ 277,785

Gross premiums written relating to other life business decreased by $78.7 million in the six months ended June 30, 2010 as compared to the same period in 2009 mainly due to a $59.0 million decrease as a result of the novation of a long-term care treaty and the novation and recapture of a number of term assurance treaties during the second half of 2009 and at the end of the first quarter, 2010 (offset by $11.4 million higher premiums from increased business volumes on remaining term assurance treaties), $17.5 million from the sale of the U.S. business during the fourth quarter of 2009, a $14.8 million decrease from the short-term life, accident and health business in line with run-off expectations, and unfavorable foreign exchange movement of $3.8 million. These are offset by a $4.9 million increase from the block of U.S. term life business due to higher premiums relating to policies passing out of their guaranteed premium period. Gross premiums written relating to annuity business decreased by $1.3 million in the six months ended June 30, 2010 as compared to the six months ended June 30, 2009 mainly due to unfavorable foreign exchange rate movements. Ceded premiums written during the six months ended June 30, 2010 decreased by $8.6 million as compared to the six months ended June 30, 2009 as a result of both last year’s higher cession ratio associated with short-term life, accident and health business underwritten in the 2009 underwriting year, which occurred as part of the sale of the renewal rights as mentioned above, and of the sale of the U.S. business, as well as favorable foreign exchange movements.

Net premiums earned in the first six months of 2010 decreased 31.1% as compared to the first six months of 2009. This decrease was consistent with the decrease in gross and net premiums written as described above.

Claims and policy benefit reserves decreased by $85.4 million or 25.7% in the six months ended June 30, 2010 as compared to the six months ended June 30, 2009, as a result of a $13.6 million gain on recapture of three treaties during the first quarter, 2010, combined with a decrease in incurred losses consistent with the decrease in gross premiums written associated with term assurance business as noted above, as well as the sale of the U.S. business during the fourth quarter of 2009, and including favorable foreign exchange movements. Changes in claims and policy benefits include the movement in policy benefit reserves related to other contracts (such as immediate annuities) where investment assets were acquired with the assumption of the policy benefit reserves at the inception of the contract.

For the six months ended June 30, 2010, acquisition costs decreased by 26.9% as compared to the same period in 2009, largely as a result of the decrease in net premiums written associated with the term assurance business as noted above, as well as lower acquisition costs associated with the run-off of the short-term life, accident and health business. Operating expenses decreased by 28.8% in the first six months of 2010 as compared to the same period in the prior year due mainly to lower compensation expenses as a result of overall lower staffing levels and due to the same period last year containing higher severance costs.

Net investment income is included in the calculation of contribution from Life operations, as it relates to income earned on portfolios of separately identified and managed life investment assets and other allocated assets. Net investment income decreased by $4.6 million or 2.9% in the six months ended June 30, 2010, as compared to the same period in 2009, primarily as a result of foreign exchange impact.

See below for an analysis of the Company's total realized losses on investments during the six months ended June 30, 2010.

Investment Activities

The following table illustrates the change in net investment income from P&C operations, net income from investment fund affiliates, net realized gains (losses) on investments and net realized and unrealized gains (losses) on investment derivative instruments for the six months ended June 30, 2010 and 2009:

(U.S. dollars in thousands)	(Unaudited) Six months Ended June 30, 2010	(Unaudited) Six months Ended June 30, 2009	% Change
Net investment income – P&C operations	$ 446,183	$ 500,347	(10.8)%
Net income (loss) from investment fund affiliates (1)	27,262	10,193	NM*
Net realized gains (losses) on investments (2)	(97,562)	(332,367)	NM*
Net realized and unrealized gains (losses) on investment and other derivative instruments	(40,376)	(438)	NM*

(1) The Company records the income related to alternative fund affiliates on a one month lag and the private investment fund affiliates on a three month lag in order for the Company to meet the accelerated filing deadlines.
(2) Results to June 30, 2009 include charges for OTTI related to the non-credit impairment of unrealized losses. From April 1, 2009, the non-credit impairment is excluded from realized losses.
* NM – Not meaningful

Net investment income related to P&C operations decreased in the six months ended June 30, 2010 as compared to the same period in 2009 due primarily to declining portfolio yields. Overall, portfolio yields have decreased as a result of the impact of declines in U.S. interest rates, and particularly the impact of decreased U.S. Dollar Libor on the Company's floating rate securities previously supporting the GIC and funding agreement business. In addition, the Company increased its holdings in lower-yielding cash, government and agency RMBS securities in connection with its investment portfolio de-risking efforts as the Company re-aligned its portfolio to one more typical of a P&C portfolio.

Net income from investment fund affiliates increased in the first half of 2010 compared to the first half of 2009. These results reflect solid year to date results from the Company's private investment portfolio, as compared to a loss during the first half of 2009, offset by earnings from alternative funds, which were lower than the results during the first half of 2009.

The Company manages its investment grade fixed income securities in accordance with investment guidelines approved by the Finance Committee of the Board of Directors. Due to the unique nature of the underlying liabilities, customized benchmarks are used to measure investment performance and comparison to standard market indices is not meaningful. Investment performance is not monitored for certain assets primarily consisting of operating cash and special regulatory deposits. The following is a summary of the investment portfolio returns for the six months ended June 30, 2010 and 2009:

	(Unaudited) Six months Ended June 30,	
	2010(1)	2009 (1)
Fixed income portfolios		
USD fixed income portfolio	4.5%	2.2%
GBP fixed income portfolio	6.5%	1.0%
EUR fixed income portfolio	5.5%	1.3%
Other portfolios		
Alternative portfolio (2)	2.1%	7.4%
Equity portfolio (3)	NM*	(13.9)%
High-Yield fixed income portfolio	2.6%	26.3%

(1) Portfolio returns are calculated by dividing the sum of net investment income or net income from investment affiliates, realized gains (losses) and unrealized gains (losses) by the average market value of each portfolio. Performance is measured in the underlying asset currency.
(2) Performance on the alternative portfolio reflects the three months ended May 31, 2010 and May 31, 2009, respectively.
(3) Equity portfolio is negligible in 2010 and accordingly, performance returns are not presented.
* NM – Not meaningful

Net Realized Gains and Losses and Other than Temporary Declines in the Value of Investments

Net realized losses on investments in the six months ended June 30, 2010 included net realized losses of approximately $97.6 million related to the write-down of certain of the Company's fixed income, equity and other investments. Impairment charges to March 31, 2009 include charges of OTTI related to the non-credit impairment of unrealized losses. From April 1, 2009, as a result of changes in GAAP, the non-credit impairment is excluded from net impairments. In addition, included in the net realized losses noted above are negligible net realized gains from sales of investments.

The significant components of the net impairment charges of $97.6 million consist of:

§ For corporate securities, excluding medium term notes backed primarily by investment grade European credit, the Company recorded net impairments totaling $0.2 million for the six months ended June 30, 2010. The impairment charges consisted of below-investment grade securities, with respect to which the Company considered impairment factors consistent with an equity impairment model, along with a debt impairment model, and accordingly recorded impairment charges to fair value, or determined that the securities in an unrealized loss position would be sold.

In addition the Company recorded impairments totaling $5.3 million for the six months ended June 30, 2010 in relation to medium term notes backed primarily by investment grade European credit. Management has concluded that, following recent credit spread movements since 2009, future yields within the supporting collateral were not sufficient to support the previously reported amortized cost.

§ For structured credit securities, the Company recorded net impairments of $53.9 million for the six months ended June 30, 2010. The Company determined that the likely recovery on these securities was below the carrying value, and accordingly impaired the securities to the discounted value of the cash flows of these securities.

§ For the non-equity accounted alternative fund, the Company recorded impairments of $5.8 million for the six months ended June 30, 2010 because the fund that was impaired by more than 50% of amortized cost.

§ For equities, the Company recorded impairments of $0.4 million for the six months ended June 30, 2010 because the security was impaired for more than 11 months.

§ The Company recorded impairments of $6.7 million related to currency losses for the six months ended June 30, 2010.

§ The Company recorded impairments totaling $25.3 million in relation to medium term notes backed primarily by investment grade European credit as a result of its intent to sell these securities.

Net realized losses in the first six months of 2009 included net realized losses of $370.0 million related to the write-down of certain of the Company's fixed income, equity and other investments with respect to which the Company determined that there was an other-than-temporary decline in the value of those investments as well as net realized gains of $37.6 million from sales of investments. Of the other-than-temporary impairments, $147.7 million related to intent to sell securities.

Net Realized and Unrealized Gains and Losses on Derivatives

Net realized and unrealized gains on investment derivatives for the six months ended June 30, 2010 resulted from the Company's investment strategy to manage interest rate risk, foreign exchange risk and credit risk, and to replicate permitted investments. For further information, see Item 1, Note 6, "Derivative Instruments" herein as well Item 8, Note 2 of the Consolidated Financial Statements, "Significant Accounting Policies", in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Other Revenues and Expenses

The following table sets forth other revenues and expenses for the six months ended June 30, 2010 and 2009:

(U.S. dollars in thousands)	(Unaudited) Six months Ended June 30, 2010	(Unaudited) Six months Ended June 30, 2009	% Change
Net income (loss) from operating affiliates (1)	$ 32,619	$ 7,339	NM*
Exchange (gains) losses	(53,359)	120,597	NM*
Amortization of intangible assets	929	929	NM*
Corporate operating expenses	41,656	58,931	(29.3)%
Interest expense (2)	75,451	92,527	(18.5)%
Income tax expense	72,812	61,998	17.4%

(1) The Company generally records the income related to certain operating affiliates on a three month lag in order for the Company to meet accelerated filing deadlines.

(2) Interest expense does not include interest expense related structured products as reported within the Insurance and Reinsurance segments and Corporate.

* NM – Not meaningful

The following table sets forth the net income (loss) from operating affiliates for the six months ended June 30, 2010 and 2009:

(U.S. dollars in thousands)	(Unaudited) Six months Ended June 30, 2010	(Unaudited) Six months Ended June 30, 2009	% Change
Net (loss) from financial operating affiliates	$ (785)	$ 3,883	NM*
Net income (loss) from investment manager affiliates	14,743	(11,132)	NM*
Net income from other strategic operating affiliates	18,661	14,588	27.9%
Total	$ 32,619	$ 7,339	NM*

* NM – Not meaningful

Investment manager affiliate income increased during the first six months of 2010 as compared to the same period in the prior year primarily as a result of more benign capital market conditions in the fourth quarter of 2009 and first quarter of 2010 compared to the challenging conditions for alternative asset managers reported in the fourth quarter of 2008 and first quarter of 2009. The Company also benefited from a modest gain associated with the sale of its stake in one of the investment manager affiliates in the first quarter of 2010.

Income from other strategic operating affiliates increased in the first six months of 2010 as compared to the first six months of 2009 mainly due to higher earnings reported in the first quarter of 2010 relating to an insurance affiliate which writes largely direct U.S. homeowners insurance and a net loss from the Company's Brazilian joint venture ITAU in the first quarter of 2009. The Company's investment in ITAU was sold during the second quarter of 2010.

Foreign exchange gains in the six months ended June 30, 2010 and in the six months ended June 30, 2009 were due primarily to the change in the value of the U.S. dollar against certain European currencies, including the U.K. Sterling and the Euro, on certain inter-company balances and net underwriting liability balances.

Corporate operating expenses in the six months ended June 30, 2010 decreased compared to the six months ended June 30, 2009 primarily as a result of the restructuring costs incurred in 2009 as well as the cost savings achieved from these restructuring activities during the six months ended June 30, 2010.

Interest expense for the six months ended June 30, 2010 as compared to the same period in 2009 was lower mainly as a result of the interest associated retirement of the 2011 Senior Notes in February 2009. For more information on the Company's financial structure, see "Liquidity and Capital Resources."

The increase in the Company's income taxes in the six months ended June 30, 2010, compared to the same period in 2009 arose principally from higher income generated in taxable jurisdictions in the six months ended June 30, 2010.

Balance Sheet Analysis

Investments

The primary objectives of the investment strategy are to support the liabilities arising from the operations of the Company, generate stable investment income and build book value for the Company over the longer term. The strategy strives to balance investment returns against market and credit risk. The Company's overall investment portfolio is structured to take into account a number of variables including local regulatory requirements, business needs, collateral management and risk tolerance.

At June 30, 2010 and December 31, 2009, total investments, cash and cash equivalents, accrued investment income and net payable for investments purchased was $35.8 billion and $35.9 billion, respectively. The following table summarizes the composition of the Company's invested assets at June 30, 2010 and December 31, 2009:

(U.S. dollars in thousands)	Carrying value June 30, 2010 (1)	Percent of Total	Carrying Value December 31, 2009 (1)	Percent of Total
Cash and cash equivalents	$ 3,801,194	10.6%	$ 3,643,697	10.2%
Net receivable/ (payable) for investments sold/ (purchased)	(2,522)	0.0%	47,638	0.1%
Accrued investment income	326,297	0.9%	350,055	1.0%
Short-term investments	1,552,301	4.3%	1,777,360	5.0%
Fixed maturities, available for sale:				
U.S. Government and Government-Related/Supported	2,491,906	7.0%	2,664,625	7.4%
Corporate	10,703,216	29.9%	9,799,000	27.3%
Residential mortgage-backed securities – Agency	5,937,179	16.6%	6,228,501	17.4%
Residential mortgage-backed securities – Non-Agency	1,331,601	3.7%	1,421,315	4.0%
Commercial mortgage-backed securities	1,259,834	3.5%	1,216,799	3.4%
Collateralized debt obligations	699,445	2.0%	698,561	1.9%
Other asset-backed securities	1,187,782	3.3%	1,167,985	3.3%
U.S. States and political subdivisions of the States	1,140,876	3.2%	913,473	2.5%
Non-U.S. Sovereign Government, Supranational and Government-Related	2,930,000	8.2%	3,401,773	9.5%
Total fixed maturities	$ 27,681,839	77.4%	$ 27,512,032	76.7%
Fixed maturities, held to maturity	468,738	1.3%	546,067	1.5%
Equity securities	19,975	0.1%	17,779	0.0%
Investments in affiliates	1,080,570	3.0%	1,185,604	3.3%
Other investments	858,636	2.4%	783,189	2.2%
Total investments and cash and cash equivalents	**$ 35,787,028**	**100.0%**	**$ 35,863,421**	**100.0%**

(1) Carrying value represents the fair value for available for sale fixed maturities and amortized cost for held to maturity securities.

The Company reviews on a regular basis its corporate debt concentration, credit quality and compliance with established guidelines. At both June 30, 2010 and December 31, 2009, the average credit quality of the Company's total fixed income portfolio (including fixed maturities, short-term investments, cash and cash equivalents and net payable for investment purchased) was "AA". As at June 30, 2010, approximately 54.9% of the fixed income portfolio excluding operating cash was rated "AAA" by one or more of the principal ratings agencies. Approximately 3.7% was below investment grade or not rated.

Refer to "Significant Items Affecting the Results of Operations" for further discussion surrounding the impact of credit market movements on the Company's investment portfolio and exposure to sub-prime related assets.

Gross and Net Unrealized Losses on Investments

At June 30, 2010, the Company had net unrealized losses on fixed maturities and short-term investments of $305.9 million. Of these amounts, gross unrealized losses on fixed maturities and short-term investments were $1.3 billion. The information presented below for the gross unrealized losses on the Company's investments at June 30, 2010 shows the potential effect upon future earnings and financial position should management later conclude that some of the current declines in the fair value of these investments are other-than-temporary. Realized losses or impairments, depending on their magnitude, may have a material adverse effect on the Company's operations. The decrease in net unrealized losses on investments during the three months ended June 30, 2010 was primarily due to tightening credit spreads. See Item 3 "Quantitative and Qualitative Disclosures about Market Risk–Credit Risk."

The following is an analysis of how long each of those securities with an unrealized loss at June 30, 2010 had been in a continual unrealized loss position:

(U.S. dollars in thousands) **Type of Securities**	**Length of time in a continual unrealized loss position**	**(Unaudited) Amount of unrealized loss at June 30, 2010 (1)**	**(Unaudited) Fair Value of Securities in an unrealized loss position at June 30, 2010**
Fixed Maturities and Short-Term Investments	Less than six months	$ 43,301	$ 1,139,287
	At least 6 months but less than 12 months	72,339	665,440
	At least 12 months but less than 2 years	253,005	1,067,490
	2 years and over	979,023	3,833,057
	Total	$ 1,347,668	$ 6,705,274
Equities	Less than six months	$ 507	$ 5,002
	At least 6 months but less than 12 months	—	—
	Total	$ 507	$ 5,002

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

The following is the maturity profile of the fixed income securities that were in a gross unrealized loss position at June 30, 2010:

(U.S. dollars in thousands) **Maturity profile in years of fixed maturities in a continual gross unrealized loss position**	**(Unaudited) Amount of unrealized loss at June 30, 2010**	**(Unaudited) Fair value of securities in an unrealized loss position at June 30, 2010**
Less than 1 year remaining	$ 7,380	$ 251,704
At least 1 year but less than 5 years remaining	136,528	1,326,925
At least 5 years but less than 10 years remaining	62,822	680,814
At least 10 years but less than 20 years remaining	51,437	577,501
At least 20 years or more remaining	236,282	1,408,963
Residential mortgage-backed securities - Agency	1,225	56,311
Residential mortgage-backed securities - Non-Agency	460,218	1,166,685
Commercial mortgage-backed securities	25,204	194,395
Collateralized debt obligations	323,414	682,851
Other asset-backed securities	43,158	359,125
Total	$ 1,347,668	$ 6,705,274

Gross Unrealized Gains and Losses

The following tables summarizes the fair value, gross unrealized losses, credit rating and asset class of securities in a gross unrealized loss position within the Company's structured credit and corporate portfolios, which comprised 94.2% of the Company's total gross unrealized loss position of $1.3 billion at June 30, 2010. The remaining gross unrealized loss is related to government and government-related/supported securities and is primarily driven by foreign exchange.

(U.S. dollars in millions)

Corporates:	AAA	AA	A	BBB	BB & Below	Total
Financials (1)						
Fair value	$ 66.8	$ 216.2	$ 967.3	$ 418.2	$ 41.9	$ 1,710.4
Gross unrealized loss	$ (2.5)	$ (13.1)	$ (158.5)	$ (95.3)	$ (10.4)	$ (279.8)
Non-Financials (2)						
Fair value	$ 5.8	$ 195.2	$ 422.7	$ 418.7	$ 179.6	$ 1,222.0
Gross unrealized loss	$ (0.5)	$ (16.8)	$ (35.3)	$ (64.9)	$ (16.4)	$ (133.9)
Total						
Fair value	$ 72.6	$ 411.4	$ 1,390.0	$ 836.9	$ 221.5	$ 2,932.4
Gross unrealized loss	$ (3.0)	$ (29.9)	$ (193.8)	$ (160.2)	$ (26.8)	$ (413.7)
% Impaired (of amortized cost) (3)	4.0%	6.9%	12.5%	16.4%	10.9%	12.6%

Structured Credit:	AAA	AA	A	BBB	BB & Below	Total
CMBS						
Fair value	$ 114.8	$ 50.1	$ 13.9	$ 3.1	$ 13.2	$ 195.1
Gross unrealized loss	$ (3.3)	$ (5.7)	$ (6.7)	$ (0.6)	$ (8.8)	$ (25.1)
Non Agency RMBS						
Fair value	$ 191.5	$ 121.7	$ 130.6	$ 79.5	$ 528.7	$ 1,052.0
Gross unrealized loss	$ (21.9)	$ (35.8)	$ (55.4)	$ (50.2)	$ (283.2)	$ (446.5)
Core CDOs (4)						
Fair value	$ 52.6	$ 97.9	$ 264.5	$ 111.5	$ 160.7	$ 687.2
Gross unrealized loss	$ (6.3)	$ (19.5)	$ (94.0)	$ (49.6)	$ (152.1)	$ (321.5)
Other Asset & Mortgage Backed Securities						
Fair value	$ 192.6	$ 96.6	$ 87.4	$ 90.5	$ 30.1	$ 497.2
Gross unrealized loss	$ (12.2)	$ (5.6)	$ (6.1)	$ (9.9)	$ (21.2)	$ (55.0)
Agency RMBS						
Fair value	$ 57.1	$ —	$ —	$ —	$ —	$ 57.1
Gross unrealized loss	$ (1.2)	$ —	$ —	$ —	$ —	$ (1.2)
Total						
Fair Value	$ 608.6	$ 366.3	$ 496.4	$ 284.6	$ 732.7	$ 2,488.6
Gross unrealized loss	$ (44.9)	$ (66.6)	$ (162.2)	$ (110.3)	$ (465.3)	$ (849.3)
% Impaired (of amortized cost) (3)	6.9%	15.4%	24.7%	28.0%	39.0%	25.5%

(1) Included in the gross unrealized losses on corporate financials are gross unrealized losses of $185.3 million on Tier One and upper Tier Two securities of financial institutions, as well as $63.5 million in unrealized losses on subordinated debt with a fair value of $1.0 billion.

(2) Included within Corporate are certain floating rate medium term notes supported primarily by pools of European corporate bonds with varying degrees of leverage. The notes have a fair value of $552.6 million and an amortized cost of $620.2 million. These securities have been allocated ratings of the underlying pool of collateral. These notes allow the investor to participate in cash flows of the underlying bonds including certain residual values, which could serve to either decrease or increase the ultimate values of these notes.

(3) Management considers these impairments to be temporary.

(4) The Company defines Core CDOs as investments in non-subprime collateralized debt obligations, which primarily consisted of collateralized loan obligations.

Management, in its assessment of whether securities in a gross unrealized loss position are temporarily impaired, considers the significance of the impairments. The Company had structured credit securities with gross unrealized losses of $243.1 million, with a fair value of $135.5 million, which as at June 30, 2010 were impaired by greater than 50% of amortized costs. All of these are asset-backed securities. Of these gross unrealized losses, $52.2 million are rated investment grade. The Company has evaluated each of these securities in conjunction with its investment manager service providers and 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. These securities include gross unrealized losses of $139.3 million on non-Agency RMBS, $85.8 million on Core CDOs and $7.7 million on CMBS holdings.

Included in the gross unrealized losses associated with the Company's corporate portfolio as of June 30, 2010 are gross unrealized losses of $7.8 million related to Tier One and Upper Tier Two securities that have been rated below investment grade by at least one major rating agency. Of this total, none have gross unrealized losses representing greater than 50% of amortized cost. The Company has completed its review of this portfolio and believes, at this time, that these impairments remain temporary in nature. The primary basis for this conclusion was the analysis of the fundamentals of these securities using a debt-based impairment model, which indicated these securities continue to meet their obligations, and the issuer has the ability to call these obligations at their call date. In addition, as these securities are below investment grade, the Company considered these securities using an equity impairment model. Factors that were considered and supported the belief that these impairments were temporary included that the vast majority of these securities had only been rated below investment grade beginning in the first quarter of 2009, in certain cases alternative ratings were available that indicated these securities remained investment grade, or the securities were only slightly below investment grade and recent improvement in the prices of these securities. At June 30, 2010, the Company believes that it is likely that the fair values of these securities will ultimately increase to equal the cost basis over a reasonable period of time. However, there is a high degree of judgment in reaching this conclusion, including an assessment of how various governments will treat these securities in the event of governmental intervention in these institutions' operations or management's decision to defer calls or coupons. Management will closely monitor the developments related to these securities.

Net Unrealized Gains and Losses

The following table details the Company's corporate credit exposures by certain asset classes as well as ratings levels within the Company's fixed income investment portfolio and the current net unrealized (loss) position at June 30, 2010:

(U.S. dollars in millions)

Corporates:	**AAA**	**AA**	**A**	**BBB**	**BB & Below**	**Total**
Financials						
Fair value	$ 460.6	$ 1,148.7	$ 1,848.6	$ 494.4	$ 46.6	$ 3,998.9
Net unrealized gain (loss)	$ 12.9	$ 20.9	$ (119.0)	$ (91.8)	$ (9.7)	$ (186.7)
Non-Financials						
Fair value	$ 138.2	$ 1,695.2	$ 4,095.0	$ 1,204.9	$ 367.7	$ 7,501.0
Net unrealized gain (loss)	$ 7.0	$ 63.2	$ 176.1	$ (3.9)	$ (1.8)	$ 240.6
Total						
Fair value	$ 598.8	$ 2,843.9	$ 5,943.6	$ 1,699.3	$ 414.3	$ 11,499.9
Net unrealized gain (loss)	$ 19.9	$ 84.1	$ 57.1	$ (95.7)	$ (11.5)	$ 53.9

At June 30, 2010, approximately $1.6 billion of the Company's $4.0 billion in corporate financial sector securities was held in the portfolios supporting the Company's Life operations portfolio. The assets associated with that business are more heavily weighted towards longer term securities from financial institutions, including a significant portion of the Company's Tier 1 and Upper Tier 2 securities, representing committed term debt and hybrid instruments senior to the common and preferred equity of the financial institutions. Financials held in Life portfolios accounted for $182.6 million of the Company's net unrealized loss as at June 30, 2010. At June 30, 2010 approximately 43% of the overall sensitivity to interest rate risk and 33% to credit risk was related to the Life operations portfolio, despite these portfolios accounting for only 18.1% of the fixed income portfolio.

The following table details the Company's structured credit exposures by certain asset classes as well as ratings levels within the Company's fixed income investment portfolio and the current net unrealized gain (loss) position at June 30, 2010:

(U.S. dollars in millions) **Structured Credit:**	AAA	AA	A	BBB	BB & Below	Total
CMBS						
Fair value	$ 1,024.5	$ 183.5	$ 25.3	$ 7.9	$ 24.8	$ 1,266.0
Net unrealized gain (loss)	$ 34.2	$ (1.5)	$ (6.1)	$ (0.3)	$ (4.0)	$ 22.3
Non-Agency RMBS						
Fair value	$ 210.2	$ 139.6	$ 138.0	$ 88.6	$ 572.1	$ 1,148.5
Net unrealized gain (loss)	$ (20.6)	$ (35.1)	$ (54.8)	$ (48.8)	$ (272.3)	$ (431.6)
Core CDOs (1)						
Fair value	$ 52.8	$ 97.9	$ 265.6	$ 111.5	$ 174.1	$ 701.9
Net unrealized gain (loss)	$ (6.3)	$ (19.5)	$ (93.9)	$ (49.6)	$ (144.9)	$ (314.2)
Other Asset & Mortgage Backed Securities						
Fair value	$ 850.2	$ 190.2	$ 221.3	$ 115.7	$ 30.7	$ 1,408.1
Net unrealized gain (loss)	$ 6.9	$ (2.8)	$ (0.7)	$ (8.4)	$ (20.9)	$ (25.9)
Agency RMBS						
Fair value	$ 5,986.1	$ —	$ —	$ —	$ —	$ 5,986.1
Net unrealized gain (loss)	$ 206.0	$ —	$ —	$ —	$ —	$ 206.0
Total						
Fair value	$ 8,123.8	$ 611.2	$ 650.2	$ 323.7	$ 801.7	$ 10,510.6
Net unrealized gain (loss)	$ 220.2	$ (58.9)	$ (155.5)	$ (107.1)	$ (442.1)	$ (543.4)

(1) The Company defines Core CDOs as investments in non-mortgage collateralized debt obligations, primarily consisting of collateralized loan obligations.

The following table details the current exposures to Non-Agency RMBS and Core CDOs within the Company's fixed income portfolio as well as the current net unrealized (loss) gain position at June 30, 2010 and December 31, 2009:

	June 30, 2010			December 31, 2009		
(U.S. dollars in thousands)	Holding at Fair Value	Percent of Fixed Income Portfolio	Net Unrealized (Loss) Gain	Holding at Fair Value	Percent of Fixed Income Portfolio	Net Unrealized (Loss) Gain
Non-Agency RMBS:						
Sub-prime first lien mortgages	$ 383,739	1.1%	$ (201,751)	$ 377,609	1.1%	$ (252,745)
Alt-A mortgages	307,889	0.9%	(169,133)	316,795	0.9%	(209,731)
Second lien mortgages (including sub-prime second lien mortgages)	38,208	0.1%	(12,522)	37,776	0.1%	(19,920)
ABS CDOs with sub-prime collateral	5,573	—%	802	5,429	—%	32
Prime RMBS	413,021	1.2%	(49,047)	484,004	1.4%	(88,153)
Total exposure to Non-Agency RMBS	$ 1,148,430	3.3%	$ (431,651)	$ 1,221,613	3.5%	$ (570,517)
Core CDOs	$ 701,889	2.1%	(314,168)	$ 700,884	2.1%	(333,257)

Of the total Non-Agency RMBS with fair value exposure at June 30, 2010 and December 31, 2009 of $1,148.4 million and $1,221.6 million, respectively, approximately $35.6 million and $32.8 million, respectively, of the related securities had ratings dependent on guarantees issued by third party guarantors (i.e., monoline insurers). Decreases in the ratings of such third party guarantors would typically decrease the fair value of guaranteed securities; however, at June 30, 2010, in the event of non-performance at such date on the part of these third party guarantors, the Company estimated that the average credit quality of this portfolio would be 'A' and that approximately 91.6% would have remained investment grade at such date. In addition, of the total fixed income portfolio of $33.8 billion at June 30, 2010 and $33.9 billion at December 31, 2009, less than 2% were guaranteed by such third parties with no individual third party representing more than 1%.

At June 30, 2010, the Company's Non-Agency RMBS exposures had adequate underlying loan characteristics and the Company believed at such date that the current amortized cost levels were at or below the discounted cash flow value of the holdings, based on an analysis of subordination levels relative to current expectations of house price declines, loss severities and default levels. The Company had approximately $265.6 million of Non-Agency RMBS downgraded during the quarter ended June 30, 2010. However, 50.2% of the Company's holdings excluding operating cash remain rated investment grade at June 30, 2010.

Refer to "Significant Items Affecting the Results of Operations" for further discussion surrounding the impact of credit market movements on the Company's investment portfolio and exposure to sub-prime related assets.

As noted in Item 8, Note 2 to the Consolidated Financial Statements, "Significant Accounting Policies," in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, the determination of the amount of OTTI varies by investment type and is based upon management's periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. Management considers a wide range of factors about the securities and uses their best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for near-term recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Management updates its evaluations regularly and reflects additional impairments in net income as determinations are made. Management's determination of the amount of the impairment taken on investments is highly subjective and could adversely impact the Company's results of operations. There can be no assurance that management has accurately assessed the level of OTTI taken and reflected in the Company's financial statements. Furthermore, additional impairments may need to be taken in the future. Historical trends may not be indicative of future impairments.

Levels of write-down or OTTI are also impacted by the Company's assessment of the intent to sell securities that have declined in value until recovery. If, due to changes in circumstances, the Company determines to reposition or realign portions of the portfolio and the Company determines not to hold certain securities in an unrealized loss position to recovery, then the Company will incur OTTI charges, which charges could be significant.

Fair Value Measurements of Assets and Liabilities

The Company provides disclosures by level within the fair value hierarchy of the Company's assets and liabilities that are carried at fair value in Item 1, Note 3 to the Consolidated Financial Statements, "Fair Value Measurements." For a full description of the valuation methodologies utilized by the Company for all asset and liabilities carried at fair value, see Item 8, Notes 2 and 3 of the Consolidated Financial Statements, "Significant Accounting Policies" and "Fair Value Measurements," in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

At June 30, 2010, Level 3 assets represented approximately 3.4% of the Company's assets that are measured at fair value and less than 3% of total assets. Level 3 liabilities represented approximately 112.5% of the Company's liabilities that are measured at fair value and less than 1% of total liabilities at June 30, 2010. As defined in the hierarchy, those assets and liabilities categorized as Level 3 have valuations determined using unobservable inputs. Unobservable inputs may include the entity's own assumptions about market participant assumptions, applied to a modeled valuation; however, this is not the case with respect to the Company's Level 3 assets and liabilities. The vast majority of the assets and liabilities classified as Level 3 are made up of those securities for which the values were obtained from brokers where either significant inputs were utilized in determining the value that were difficult to corroborate with observable market data, or sufficient information regarding the specific inputs utilized by the broker were not obtained to support a Level 2 classification. In limited instances, the Company utilized internal valuation models.

At June 30, 2010, the Company did not have any liabilities that were carried at fair value based on Level 3 inputs other than derivative instruments in a liability position.

During the six months ended June 30, 2010, certain CDOs that were previously classified as Level 2 due to sufficient market data being available to allow a price to be determined and provided by third party pricing vendors, were transferred to Level 3 because third party vendor prices were no longer believed to be the most appropriate pricing source, therefore, broker quotes are the primary source of the valuations for these CDOs.

Controls over Valuation of Financial Instruments

The Company performs quarterly reviews of the prices received from its third party valuation sources to assess if the prices represent a reasonable estimate of fair value. This process is completed by investment and accounting personnel who are independent of those responsible for providing the valuations. These reviews include, but are not limited to, valuation comparisons between external sources and the completion of recurring reviews of third party pricing services' methodologies. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon available market data, the price received from one third party may be substituted for another or, in limited circumstances, management may determine that an adjustment is required to a third party value. In addition, similar valuation controls are followed by external parties responsible for sourcing appropriate valuations from third parties on the Company's behalf, which provides additional support regarding the reasonableness of the fair values recorded in the Company's financial statements.

Unpaid Losses and Loss Expenses

The Company establishes reserves to provide for estimated claims, the general expenses of administering the claims adjustment process and losses incurred but not reported. These reserves are calculated using actuarial and other reserving techniques to project the estimated ultimate net liability for losses and loss expenses. The Company's reserving practices and the establishment of any particular reserve reflects management's judgment concerning sound financial practice and do not represent any admission of liability with respect to any claims made against the Company.

Unpaid losses and loss expenses totaled $20.2 billion at June 30, 2010, and $20.8 billion at December 31, 2009. The table below represents a reconciliation of the Company's P&C unpaid losses and loss expenses for the six months ended June 30, 2010:

(U.S. dollars in thousands)	(Unaudited) Gross unpaid losses and loss expenses	(Unaudited) Unpaid losses and loss expenses recoverable	(Unaudited) Net unpaid losses and loss expenses
Balance as at December 31, 2009	$ 20,823,524	$ (3,557,391)	$ 17,266,133
Losses and loss expenses incurred	2,053,820	(414,455)	1,639,365
Losses and loss expenses paid/recovered	(2,147,663)	462,878	(1,684,785)
Foreign exchange and other	(575,789)	79,453	(496,336)
Balance as at June 30, 2010	$ 20,153,892	$ (3,429,515)	$ 16,724,377

While the Company reviews the adequacy of established reserves for unpaid losses and loss expenses regularly, no assurance can be given that actual claims made and payments related thereto will not be in excess of the amounts reserved. In the future, if such reserves develop adversely, such deficiency would have a negative impact on future results of operations. See "Unpaid Losses and Loss Expenses" in Item 1, "Critical Accounting Policies and Estimates" in Item 7 and Item 8, Note 12 to the Consolidated Financial Statements, each in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 for further discussion.

Unpaid Losses and Loss Expenses Recoverable and Reinsurance Balances Receivable

As a significant portion of the Company's net premiums written incept in the first six months of the year, certain assets and liabilities have increased at June 30, 2010 compared to December 31, 2009. This includes deferred acquisition costs, unearned premiums, premiums receivable and prepaid reinsurance premiums.

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. While reinsurance agreements are designed to limit the Company's losses from large exposures and permit recovery of a portion of direct unpaid losses, reinsurance does not relieve the Company of its ultimate liability to its insureds. Accordingly, the loss and loss expense reserves on the balance sheet represent the Company's total unpaid gross losses. Unpaid losses and loss expenses recoverable relate to estimated reinsurance recoveries on the unpaid loss and loss expense reserves.

Unpaid losses and loss expense recoverables were $3.5 billion and $3.7 billion at June 30, 2010, and December 31, 2009, respectively. At June 30, 2010 and December 31, 2009, reinsurance balances receivable were $0.3 billion and $0.5 billion, respectively. The table below presents the Company's net paid and unpaid losses and loss expenses recoverable and reinsurance balances receivable at June 30, 2010 and December 31, 2009.

(U.S. dollars in thousands)	(Unaudited) June 30, 2010	December 31, 2009
Reinsurance balances receivable	$ 305,884	$ 454,660
Reinsurance recoverable on future policy benefits	24,489	26,637
Reinsurance recoverable on unpaid losses and loss expenses	3,518,667	3,667,344
Bad debt reserve on unpaid losses and loss expenses recoverable and reinsurance balances receivable	(158,982)	(189,769)
Net paid and unpaid losses and loss expenses recoverable and reinsurance balances receivable	$ 3,690,058	$ 3,958,872

Liquidity and Capital Resources

Liquidity is a measure of the Company's ability to generate sufficient cash flows to meet the short- and long-term cash requirements of the Company's business operations.

As a global insurance and reinsurance company, one of XL Group's principal responsibilities to its clients is to ensure that it has ready access to funds with which to settle large unforeseen claims. XL Group would generally expect that positive cash flow from operations (underwriting activities and investment income) will be sufficient to cover cash outflows under most future loss scenarios. However, there is a possibility that unforeseen demands could be placed on XL Group due to extraordinary events and as such the Company's liquidity needs may change. Such events include, among other things, several significant catastrophes occurring in a relatively short period of time resulting in material incurred losses; rating agency downgrades of XL Group's core insurance and reinsurance subsidiaries that would require posting of collateral, return of unearned premium and/or the settlement of derivative transactions; and large scale uncollectible reinsurance recoverables on paid losses (as a result of coverage disputes, reinsurers' credit problems or decreases in the value of collateral supporting reinsurance recoverables). Any one or a combination of such events may cause a liquidity strain. In addition, a liquidity strain could also occur in an illiquid market, such as that which was experienced in 2008. Investments that may be used to meet liquidity needs in the event of a liquidity strain may not be liquid, given inactive markets, or may have to be sold at a significant loss as a result of depressed prices. Because each subsidiary focuses on a more limited number of specific product lines than is collectively available from the consolidated group of companies, the mix of business tends to be less diverse at the subsidiary level. As a result, the probability of a liquidity strain, as described above, may be greater for individual subsidiaries than when liquidity is assessed on a consolidated basis. If such a liquidity strain were to occur in a subsidiary, XL Group plc may be required to contribute capital to the particular subsidiary and/or curtail dividends from the subsidiary to support holding company operations.

A downgrade below "A-" of XL Group's principal insurance and reinsurance subsidiaries by either S&P or A.M. Best, which is two notches below the current S&P financial strength rating of "A" (Negative) and the A.M. Best financial strength rating of "A" (Stable) of these subsidiaries, may trigger cancellation provisions in a significant amount of XL Group's assumed reinsurance agreements and may potentially require XL Group to return unearned premiums to cedants. In addition, due to collateral posting requirements under letter of credit and revolving credit facilities, such a downgrade may require the posting of cash collateral in support of certain "in use" portions of these facilities. Specifically, a downgrade below "A-" by A.M. Best would trigger such collateral requirements for XL Group's largest credit facility. In certain limited instances, such downgrades may require XL Group to return cash or assets to counterparties or to settle derivative and/or other transactions with the respective counterparties. See Item 1, "Business – Ratings," in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 for further information. See Item 1A, "Risk Factors," "A downgrade or potential downgrade in the Company's financial strength and credit ratings by one or more rating agencies could materially and negatively impact our business, financial condition, results of operations and/or cash flows" in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Holding Company Liquidity

As a holding company, XL Group plc has no operations of its own and its assets consist primarily of its investments in its subsidiaries. Accordingly, XL Group plc's future cash flows largely depend on the availability of dividends or other statutorily permissible payments from its subsidiaries. The ability to pay such dividends is limited by the applicable laws and regulations of the various countries and states in which XL Group plc's subsidiaries operate, including, among others, Bermuda, New York, Ireland, Switzerland and the United Kingdom. See the Company's Annual Report on Form 10-K for the year ended December 31, 2009 Item 8, Note 26 to the Consolidated Financial Statements, "Statutory Financial Data," for further discussion and details regarding the dividend capacity of XL Group's major operating subsidiaries. See also Item 1A to XL Group's Annual Report on Form 10-K for the year ended December 31, 2009 "Risk Factors – Risks Related to the Company - Our holding company structure and certain regulatory and other constraints affect our ability to pay dividends, make payments on our debt securities and make other payments." The ability to pay such dividends is also limited by the regulations of the Society of Lloyd's and certain contractual provisions. No assurance can be given that XL Group's subsidiaries will pay dividends in the future to XL Group plc.

As part of the Redomestication, under Irish law, dividends must be paid and share redemptions and buy backs generally must be funded out of "distributable reserves," which XL-Ireland did not have immediately following the Redomestication. On July 23, 2010, the Irish High Court approved XL-Ireland's creation of $5.0 billion of distributable reserves, subject to the completion of certain formalities under Irish Company law to enable XL Group to pay dividends and redeem and buy back shares prior to generating sufficient post-Redomestication earnings.

At June 30, 2010, the Company had cash and investments of $1.8 billion compared to $1.5 billion at December 31, 2009 (net of liabilities associated with cash sweeping arrangements).

XL Group plc's principal uses of liquidity are for dividend payments to holders of its ordinary shares and preferred shares, interest and principal payments on debt, capital investments in its subsidiaries and corporate operating expenses.

XL Capital Finance (Europe) plc ("XLCFE") is a wholly owned finance subsidiary of XL Group plc. In January 2002, XLCFE issued $600 million par value 6.5% Guaranteed Senior Notes due January 2012. These notes are fully and unconditionally guaranteed by XL Company Switzerland GmbH.

See also the Consolidated Statements of Cash Flows included in Item 1, Financial Statements, above.

Sources of Liquidity for the Company

At June 30, 2010, the consolidated Company had cash and cash equivalents of approximately $3.8 billion as compared to approximately $3.6 billion at December 31, 2009. There are three main sources of cash flows for the Company – those provided by operations, investing activities and financing activities.

Operating Cash Flows

Historically, cash receipts from operations, consisting of premiums and investment income, generally have provided sufficient funds to pay losses as well as operating expenses of the Company's subsidiaries and to fund dividends to the holding company. However, as a result of the combination of current soft market conditions, the decision to put the Life segment and certain P&C lines into run-off and lower investment yields, operating cash flows excluding extraordinary events are expected to be lower than prior years. Cash receipts from operations is generally derived from the receipt of investment income on XL Group's investment portfolio as well as the net receipt of premiums less claims and expenses related to XL Group's underwriting activities in its P&C operations as well as its Life operations segment. XL Group's operating subsidiaries provide liquidity in that premiums are generally received months or even years before losses are paid under the policies related to such premiums. Premiums and acquisition expenses are settled based on terms of trade as stipulated by an underwriting contract, and generally are received within the first year of inception of a policy when the premium is written, but can be up to three years on certain reinsurance business assumed. Operating expenses are generally paid within a year of being incurred. Claims especially for casualty business, may take a much longer time before they are reported and ultimately settled, requiring the establishment of reserves for unpaid losses and loss expenses. Therefore, the amount of claims paid in any one year is not necessarily related to the amount of net losses incurred, as reported in the consolidated statement of income.

During the six months ended June 30, 2010, net cash flows provided by operating activities were $371.0 million compared to net cash flows used of $521.0 million for the same period in 2009. The cash flows provided in the six months ended June 30, 2010 resulted primarily from lower levels of claim payments from previous underwriting years being offset by premium income. During the first six months of 2009 the cash flows used in operating activities were primarily as a result of claims payments associated with Hurricane Ike and Gustav losses.

Investing Cash Flows

Generally, positive cash flow from operations and financing activities is invested in XL Group's investment portfolio, including affiliates or acquisition of subsidiaries.

Net cash provided by investing activities was $136.5 million in the six months ended June 30, 2010 compared to net cash provided of $700.9 million for the same period in 2009. The 2010 cash inflow was mainly associated with normal purchase and sale of portfolio investments.

Financing Cash Flows

Cash flows related to financing activities include ordinary and preferred share related transactions, the payment of dividends, the issue or repayment of preferred ordinary shares and deposit liability transactions.

Net cash used in financing activities was $266.6 million in the six months ended June 30, 2010 compared to net cash used of $605.4 million for the same period in 2009. The 2010 net cash outflows related primarily to the redemption of Series C Preference Ordinary Shares, repayment of deposit liabilities and the payment of common and preferred dividends. For more information on the repurchase of debt please see Item 1, Note 7 to the Consolidated Financial Statements, "Share Capital".

In addition XL Group maintains letter of credit facilities which provide liquidity. Details of these facilities are described below in "Capital Resources."

Capital Resources

At June 30, 2010 and December 31, 2009, XL Group had total shareholders' equity of $10.5 billion and $9.4 billion, respectively. In addition to ordinary share capital, XL Group depends on external sources of financing, including debt, preference shares, contingent capital, letter of credit and other collateral facilities, to support its underwriting activities.

In particular, XL Group requires, among other things:

§ sufficient capital to maintain its financial strength and credit ratings, as issued by several ratings agencies, at levels considered necessary by management to enable XL Group's key operating subsidiaries to compete;

§ sufficient capital to enable its regulated subsidiaries to meet the regulatory capital levels required in the U.S., the U.K., Bermuda, Ireland, Switzerland and other key markets;

§ letters of credit and other forms of collateral that are required to be posted or deposited, as the case may be, by XL Group'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. XL Group also uses letters of credit to support its operations at Lloyd's; and

§ revolving credit to meet short-term liquidity needs.

The following risks are associated with XL Group's requirement to renew its credit facilities:

§ the credit available from banks may be reduced resulting in XL Group's need to pledge its investment portfolio to customers. This could result in a lower investment yield;

§ XL Group may be downgraded by one or more rating agencies which could materially and negatively impact its business, financial condition, results of operations and/or liquidity; and

§ the volume of business that XL Group's subsidiaries that are not admitted in the U.S. are able to transact could be reduced if XL Group is unable to renew its letter of credit facilities at an appropriate amount.

Continued consolidation within the banking industry may result in the aggregate amount of credit provided to XL Group being reduced. XL Group attempts to mitigate this risk by identifying and/or selecting additional banks that can participate in the credit facilities upon renewal.

The following table summarizes the components of the Company's current capital resources at June 30, 2010 and December 31, 2009:

(U.S. dollars in thousands)	June 30, 2010	December 31, 2009
Preferred share capital	$ 1,071,900	$ 1,182,673
Ordinary share capital	9,507,232	8,432,417
Total Ordinary and Preferred capital	$ 10,579,132	$ 9,615,090
Notes payable and debt	2,446,233	2,445,733
Total capital	$ 13,025,365	$ 12,060,823

a) Ordinary Share Capital

The following table reconciles the opening and closing common equity positions at June 30, 2010 and December 31, 2009:

(U.S. dollars in thousands)	June 30, 2010	December 31, 2009
Ordinary share equity – beginning of period	$ 8,432,417	$ 5,116,831
Net income (loss) attributable to XL Capital Ltd.	337,885	74,991
Share repurchases	(1,840)	(626)
Share issues	1,095	741,291
Common share dividends	(68,636)	(136,804)
Preferred share dividends	(34,694)	(80,200)
Gain on redemption of Series C preference ordinary shares	16,616	211,816
Change in accumulated other comprehensive income	803,734	2,222,460
Impact of adoption of new authoritative OTTI guidance, net of tax	—	229,670
Share based compensation and other	20,655	52,988
Ordinary equity – end of period	$ 9,507,232	$ 8,432,417

b) Debt

The following table presents the Company's debt under outstanding securities and lenders' commitments as at June 30, 2010:

				Payments Due by Period			
Notes Payable and Debt (U.S. dollars in thousands)	**Commitment/ Debt**	**In Use/ Outstanding**	**Year of Expiry**	**Less than 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**After 5 Years**
5-year revolvers	$ 1,000,000	$ —	2012	$ —	$ —	$ —	$
5-year revolver	100,000	—	2010	—	—	—	
6.50% Guaranteed Senior Notes	600,000	599,508	2012	—	600,000	—	
5.25% Senior Notes	600,000	597,259	2014	—	—	600,000	—
8.25% Senior Notes	575,000	575,000	2021	—	—	—	575,000
6.375% Senior Notes	350,000	350,000	2024	—	—	—	350,000
6.25% Senior Notes	325,000	324,466	2027	—	—	—	325,000
Total	$ 3,550,000	$ 2,446,233		$ —	$ 600,000	$ 600,000	$ 1,250,000
Adjustment to carrying value –impact of fair value hedges		21,159					
Carrying value		$ 2,467,392					

"In Use" and "Outstanding" data represents June 30, 2010 accreted values. "Payments Due by Period" data represents ultimate redemption values.

In addition, see Item 1, Note 16 to the Consolidated Financial Statements, "Notes Payable and Debt and Financing Arrangements," in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 for further information.

At June 30, 2010, banks and investors provided the Company and its subsidiaries with $3.6 billion of debt capacity, of which $2.5 billion was utilized by the Company. This debt capacity consists of:

- revolving credit facilities of $1.1 billion in aggregate; and

- senior unsecured notes of approximately $2.4 billion. These notes require the Company to pay a fixed rate of interest during their terms. At June 30, 2010, there were five outstanding issues of senior unsecured notes:

  - $600 million senior notes due January 2012, with a fixed coupon of 6.5%. The security is publicly traded. The notes were issued at $99.469 and gross proceeds were $596.8 million. Related expenses of the offering amounted to $7.9 million.

  - $600 million senior notes due September 2014, with a fixed coupon of 5.25%. The security is publicly traded. The notes were issued in two tranches of $300 million aggregate principal amount each–one tranche at 99.432% and the other at 98.419%. Aggregate gross proceeds were $593.6 million. Related expenses of the offering amounted to $4 million.

  - $575 million of senior notes due August 2021, with a fixed coupon of 8.25%. These securities are a component of the 10.75% equity security units that are publicly traded. In addition to the coupon paid on the senior notes, quarterly contract adjustment payments at an annual rate of 2.50% per annum are paid on forward purchase contracts for the Company's common shares for a total distribution of 10.75% per annum. The purchase contracts mature in 2011, and the senior notes mature in 2021. In August 2011, the senior notes will be remarketed to generate sufficient remarketing proceeds to satisfy the 10.75% equity security unit holders' obligations under the purchase contracts.

  - $350 million senior notes due November 2024, with a fixed coupon of 6.375%. The security is publicly traded. The notes were issued at 100.0% and gross proceeds were $350 million. Related expenses of the offering amounted to $2 million.

  - $325 million of senior notes due 2027, with a fixed coupon of 6.25%. The security is publicly traded. The notes were issued at 99.805% and gross proceeds were $324.4 million. Related expenses of the offering amounted to $2.5 million.

c) Preferred shares

At June 30, 2010 the Company's preferred share capital was made up of $1.0 billion Series E Preference ordinary shares and $71.9 million Series C Preference ordinary shares. At December 31, 2009 the Company's preferred share capital was made up of $1.0 billion Series E Preference ordinary shares and $182.7 million Series C Preference ordinary shares.

On February 12, 2010, the Company repurchased approximately 4.4 million Series C Preference Ordinary Shares with a liquidation value of $110.8 million for approximately $94.2 million, which was a portion of its outstanding Series C Preference Ordinary Shares. As a result, a book value gain of approximately $16.6 million was recorded in the first quarter of 2010 to ordinary shareholders. In addition, see Note 7 to the Consolidated Financial Statements, "Share Capital," for further information.

On March 26, 2009, the Company completed a cash tender offer for its outstanding Series C Preference Ordinary Shares that resulted in approximately 12.7 million Series C Preference Ordinary Shares with a liquidation value of $317.3 million being purchased by the Company for approximately $104.7 million plus accrued and unpaid dividends, combined with professional fees totaling $0.8 million. As a result, a book value gain of approximately $211.8 million was recorded in the first quarter of 2009 to ordinary shareholders. In addition, see Item 1, Note 7 to the Consolidated Financial Statements, "Share Capital," above for further information.

d) Contingent Capital

At June 30, 2010, the Company has one contingent capital transaction where the outstanding put option has not been exercised. No up-front proceeds were received by the Company under this transaction. In the event that the associated irrevocable put option agreement is exercised, proceeds previously raised from investors from the issuance of pass-through trust securities would be received in return for the issuance of preferred shares. See below for further details on this transaction.

On December 5, 2006, the Company and certain operating subsidiaries ("Ceding Insurers") entered into a securities issuance agreement (the "Securities Issuance Agreement"), and certain of the Company's foreign insurance and reinsurance subsidiaries ("Ceding Insurers") entered into an excess of loss reinsurance agreement (the "Reinsurance Agreement"), with Stoneheath Re ("Stoneheath"). The net effect of these agreements to the Company is the creation of a contingent put option to issue $350.0 million of preference ordinary shares in the aggregate. The agreements provide the Company with a Reinsurance Collateral Account in support of certain covered perils named in the Reinsurance Agreement. The covered perils include United States wind, European wind, California earthquake and terrorism worldwide. After an initial three-month period, the covered perils as well as the attachment points and aggregate retention amounts may be changed by the Ceding Insurers in their sole discretion. This may result in a material increase or decrease in the likelihood of payment under the Reinsurance Agreement. On each date on which a Ceding Insurer withdraws funds from the Reinsurance Collateral Account, the Company must issue and deliver to Stoneheath an amount of XL Group Ltd Series D Preference Shares having an aggregate liquidation preference that is equal to the amount of funds so withdrawn from the Collateral Account. The Company is obligated to reimburse Stoneheath for certain fees and ordinary expenses. The initial term of the Reinsurance Agreement was for the period from the Closing Date through June 30, 2007, with four annual mandatory extensions through June 30, 2011 (unless coverage is exhausted thereunder prior to such date). The Ceding Insurers may thereafter extend the Reinsurance Agreement at their option for additional calendar quarters without limit (unless coverage is exhausted thereunder). The contingent put option is recorded at fair value with changes in fair value recognized in earnings. The Series D Preference Shares, if issued, will pay dividends on a non-cumulative basis at a fixed rate of 6.868% per annum through October 15, 2011 and thereafter at a floating rate based on 3-month LIBOR, plus 3.12%.

e) Letter of Credit Facilities and other sources of collateral

At June 30, 2010, the Company had five letter of credit facilities in place with total availability of $5.0 billion, of which $2.7 billion was utilized.

Other Commercial Commitments (U.S. dollars in thousands)	Commitment	In Use	Year of Expiry	Amount of Commitment Expiration per period: Less than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years
Letter of Credit Facility	$ 250,000	112,462	Continuous	—	—	—	—
Letter of Credit Facility (1)	4,000,000	2,124,399	2012	—	4,000,000	—	—
Letter of Credit Facility	21	21	Continuous	—	—	—	—
Letter of Credit Facility	93	93	Continuous	—	—	—	—
Letter of Credit Facility	750,000	491,989	Continuous	—	—	—	—
Five letter of credit facilities	$ 5,000,114	$ 2,728,964		—	$ 4,000,000	—	—

(1) Of the total letter of credit facilities above, $1 billion is also included in the revolvers under notes payable and debt.

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

The Company reviews current and projected collateral requirements on a regular basis, as well as new sources of collateral. Management's objective is to maintain an excess amount of collateral sources over expected uses. The Company also reviews its liquidity needs on a regular basis.

Ratings

XL Group's ability to underwrite business is dependent upon the quality of its claims paying and financial strength ratings as evaluated by independent rating agencies. As a result, in the event that XL Group is downgraded, its ability to write business as well as its financial condition and/or results of operations could be adversely affected. XL Group regularly evaluates its capital needs to support the volume of business written in order to maintain its claims paying and financial strength ratings.

For further information, see the Risk Factor titled "A downgrade or potential downgrade in our financial strength and credit ratings by one or more rating agencies could materially and negatively impact our business, financial condition, results of operations and/or cash flows" in Item 1A to the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

On July 1, 2010, FitchRatings ("Fitch") revised the outlook of the financial strength rating of XL Group's principal insurance and reinsurance subsidiaries to "Stable" from "Negative". Also in this announcement Fitch affirmed the financial strength rating as "A". In their public announcement, Fitch noted that the change in the outlook reflects XL Group's improved capitalization, reduced financial leverage, lower investment risk and stabilization of its competitive position.

The following are the financial strength and claims paying ratings at August 4, 2010 from internationally recognized rating agencies in relation to XL Group's principal insurance and reinsurance subsidiaries and pools:

Rating agency	Rating	
A.M. Best	A	(Stable)
Standard & Poor's	A	(Negative)
Moody's Investor Services	A2	(Stable)
Fitch	A	(Stable)

In addition, at August 4, 2010 XL Group Ltd. had the following long-term debt ratings: 'bbb' (Stable) from A.M. Best, 'BBB+' (Negative) from S&P, 'Baa2' (Stable) from Moody's and 'BBB+' (Stable) from Fitch.

Other

For information regarding cross-default and certain other provisions in the Company's debt and convertible securities documents, see Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

See Part II, Item 2 "Unregistered Sales of Equity Securities and Use of Proceeds," below.

Cautionary Note Regarding Forward-Looking Statements

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

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in such statements. XL Group believes that these factors include, but are not limited to, the following: (i) changes in the size of XL Group’s claims relating to natural catastrophe losses due to the preliminary nature of some reports and estimates of loss and damage to date; (ii) trends in rates for property and casualty insurance and reinsurance; (iii) the timely and full recoverability of reinsurance placed by XL Group with third parties, or other amounts due to XL Group; (iv) changes in ratings, rating agency policies or practices; (v) changes in the projected amount of ceded reinsurance recoverables and the ratings and creditworthiness of reinsurers; (vi) the timing of claims payments being faster or the receipt of reinsurance recoverables being slower than anticipated by XL Group; (vii) XL Group’s ability to successfully implement its business strategy especially during the “soft” market cycle; (viii) increased competition on the basis of pricing, capacity, coverage terms or other factors; (ix) greater frequency or severity of claims and loss activity than XL Group’s underwriting, reserving or investment practices anticipate based on historical experience or industry data; (x) the effects of inflation on XL Group’s business, including on pricing and reserving; (xi) developments, including uncertainties related to the depth and duration of the current recession, and future volatility, in the world’s credit, financial and capital markets that adversely affect the performance and valuation of XL’s investments or access to such markets; (xii) the potential impact on XL Group from government-mandated insurance coverage for acts of terrorism; (xiii) the potential for changes to methodologies, estimations and assumptions that underlie the valuation of XL Group’s financial instruments that could result in changes to investment valuations; (xiv) changes to XL Group’s assessment as to whether it is more likely than not that XL Group will be required to sell, or has the intent to sell, available for sale debt securities before their anticipated recovery; (xv) developments in bankruptcy proceedings or other developments related to bankruptcies of companies insofar as they affect property and casualty insurance and reinsurance coverages or claims that XL Group may have as a counterparty; (xvi) availability of borrowings and letters of credit under XL Group’s credit facilities; (xvii) the ability of XL Group’s subsidiaries to pay dividends to XL Group plc; (xviii) the potential effect of regulatory developments in the jurisdictions in which XL Group operates, including those which could impact the financial markets or increase XL Group’s business costs and required capital levels; (xix) changes in regulation or laws applicable to XL Group or its subsidiaries, brokers or customers; (xx) acceptance of XL Group’s products and services, including new products and services; (xxi) changes in the availability, cost or quality of reinsurance; (xxii) changes in the distribution or placement of risks due to increased consolidation of insurance and reinsurance brokers; (xxiii) loss of key personnel; (xxiv) the effects of mergers, acquisitions and divestitures; (xxv) changes in accounting policies or practices or the application thereof; (xxvi) legislative or regulatory developments including, but not limited to, changes in regulatory capital balances that must be maintained by XL Group’s operating subsidiaries and governmental actions for the purpose of stabilizing the financial markets; (xxvii) other changes in general economic conditions, including changes in interest rates, credit spreads, foreign currency exchange rates, inflation and other factors; (xxviii) the effects of business disruption or economic contraction due to war, terrorism or other hostilities; (xxix) changes in applicable tax laws, tax treaties or tax regulations or the interpretation or enforcement thereof; (xxx) XL Group’s ability to realize the expected benefits from the redomestication; (xxxi) any unanticipated costs in connection with the redomestication; and (xxxii) the other factors set forth in XL Group’s other documents on file with the SEC. The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included herein or elsewhere. XL Group undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by the federal securities laws.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Except as described below, there have been no material changes in the Company's market risk exposures or how those exposures are managed since December 31, 2009. The following discussion should be read in conjunction with "Quantitative and Qualitative Disclosures about Market Risk," presented under Item 7A of the Company's Form 10-K for the year ended December 31, 2009.

Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments. The Company is principally exposed to the following market risks: interest rate risk, foreign currency exchange rate risk, equity price risk, credit risk, and other related market risks.

The majority of the Company's market risk arises from its investment portfolio which consists of fixed income securities, alternative investments, public equities, private investments, derivatives, other investments, and cash, denominated in both U.S. and foreign currencies, which are sensitive to changes in interest rates, credit spreads, equity prices, foreign currency exchange rates and other related market risks. The Company's fixed income and equity securities are generally classified as available for sale, and as such changes in interest rates, credit spreads on corporate and structured credit, equity prices, foreign currency exchange rates or other related market instruments will have an immediate effect on comprehensive income and shareholders' equity but will not ordinarily have an immediate effect on net income. Nevertheless, changes in interest rates, credit spreads, equity prices and other related market instruments effect consolidated net income when, and if, a security is sold or impaired.

On a limited basis the Company enters into derivatives and other financial instruments primarily for risk management purposes. The Company uses derivatives to hedge foreign exchange and interest rate risk related to its consolidated net exposures. From time to time, the Company also uses investment derivative instruments such as futures, options, interest rate swaps, credit default swaps and foreign currency forward contracts to manage the duration of its investment portfolio and foreign currency exposures and also to obtain exposure to a particular financial market. Historically, the Company entered into credit derivatives outside of the investment portfolio in conjunction with the legacy financial guarantee and financial products operations. The Company attempts to manage the risks associated with derivative use with guidelines established by senior management. Derivative instruments are carried at fair value with the resulting changes in fair value recognized in income in the period in which they occur. For further information, see Item 1, Note 6, "Derivative Instruments", herein.

This risk management discussion and the estimated amounts generated from the sensitivity and value at risk ("VaR") analyses for the investment portfolio presented in this document are forward-looking statements of market risk assuming certain adverse market conditions occur. Actual results in the future may differ materially from these estimated results due to, among other things, actual developments in the global financial markets and changes in the composition of the Company's investment portfolio. The results of analysis used by the Company to assess and mitigate risk should not be considered projections of future events of losses. See generally "Cautionary Note Regarding Forward-Looking Statements" in Item 2.

Interest Rate Risk

The Company's fixed income portfolio is exposed to interest rate risk. Interest rate risk is the price sensitivity of a fixed income security to changes in interest rates. The Company manages interest rate risk within the context of its overall asset liability management strategy by setting duration targets for its investment portfolio in line with the estimated duration of its liabilities, thus mitigating the overall economic effect of interest rate risk. Nevertheless, the Company remains exposed to interest rate risk with respect to the Company's overall net asset position and more generally from an accounting standpoint since the assets are marked to market, thus subject to market conditions, while liabilities are accrued at a static rate.

In addition, while the company's debt is not carried at fair value and not adjusted for market changes, changes in market interest rates could have an impact on debt values at the time of refinancing.

Foreign Currency Exchange Rate Risk

Many of the Company's non-U.S. subsidiaries maintain both assets and liabilities in local currencies, therefore foreign exchange risk is generally limited to net assets denominated in foreign currencies.

Foreign currency exchange rate gains and losses in the Company's Statement of Income arise for accounting purposes when net assets or liabilities are denominated in foreign currencies that differ from the functional currency of those subsidiaries. While unrealized foreign exchange gains and losses on underwriting balances are reported in earnings, the offsetting unrealized gains and losses on invested assets are recorded as a separate component of shareholders' equity, to the extent that the asset currency does not match that entity's functional currency. This results in an accounting mismatch that will result in foreign exchange gains or losses in the consolidated statements of income depending on the movement in certain currencies. In order to improve administrative efficiencies as well as to address this accounting imbalance, the Company formed several branches with Euro and U.K. Sterling functional currencies. Management continues to focus on attempting to limit this type of exposure in the future.

Foreign currency exchange rate risk in general is reviewed as part of the Company's risk management process. Within its asset liability framework for the investment portfolio, the Company pursues a general policy of holding the assets and liabilities in the same currency and as such the Company is not exposed to the risks associated with foreign exchange movements within its investment portfolio as currency impacts on the assets are generally matched by corresponding impacts on the related liabilities. Foreign exchange contracts within the investment portfolio are utilized to manage individual portfolio foreign exchange exposures, subject to investment management service providers' guidelines established by management. 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 three months or less. The Company also attempts to manage the foreign exchange volatility arising on certain transactions denominated in foreign currencies. These include, but are not limited to, premium receivable, reinsurance contracts, claims payable and investments in subsidiaries.

The principal currencies creating foreign exchange risk for the Company are the British pound Sterling, the Euro, the Swiss Franc, and the Canadian dollar. The following tables provide more information on the Company's exposure to foreign exchange rate risk at June 30, 2010 and December 31, 2009:

June 30, 2010 **(Foreign Currency in millions)**	**Euro**	**British Pound**	**Swiss Franc**	**Canadian Dollar**
Net exposure to key foreign currencies (1)	331.7	(68.2)	360.2	452.9

December 31, 2009 **(Foreign Currency in millions)**	**Euro**	**British Pound**	**Swiss Franc**	**Canadian Dollar**
Net exposure to key foreign currencies	258.6	(120.0)	261.9	508.1

(1) Subsequent to June 30, 2010, the Company has entered into additional hedging activity reducing the aggregate net exposure to these currencies to approximately $400.0 million.

Credit Risk

The Company is exposed to credit risk within its investment portfolio as well as through general counterparties, including customers and reinsurers. Credit risk relates to the uncertainty of an obligor's continued ability to make timely payments in accordance with the contractual terms of the instrument or contract. The Company manages credit risk through established investment credit policies which address quality of obligors and counterparties, credit concentration limits, and diversification requirements. The Company's exposure to market credit spreads primarily relates to market price and cash flow variability associated with changes in credit spreads.

Credit Risk – Investment Portfolio

Credit risk is the exposure to adverse changes in the creditworthiness of individual investment holdings, issuers, groups of issuers, industries and countries. A widening of credit spreads will increase the net unrealized loss position, will increase losses associated with credit based non-qualifying derivatives where the Company assumes credit exposure, and, if issuer credit spreads increase significantly or for an extended period of time, would likely result in higher other-than-temporary impairments. All else held equal, credit spread tightening will reduce net investment income associated with new purchases of fixed maturities. In addition, market volatility can make it difficult to value certain of the Company's securities if trading becomes less frequent. As such, valuations may include assumptions or estimates that may have significant period to period changes which could have a material adverse effect on the Company's consolidated results of operations or financial condition.

The table below shows the Company's aggregate fixed income portfolio by credit rating in percentage terms of the Company's aggregate fixed income exposure (including fixed maturities, short-term investments, cash and cash equivalents and net payable for investments purchased) at June 30, 2010.

	Percentage of Aggregate Fixed Income Portfolio
AAA	54.9
AA	14.1
A	20.5
BBB	6.8
BB & below	3.7
NR	—
Total (1)	100.0%

(1) Included in the above are $374.3 million or 1.1% of the portfolio which represents medium term notes rated at the average credit rating of the underlying asset pools backing the notes.

At June 30, 2010, the average credit quality of the Company's aggregate fixed income investment portfolio was "AA", excluding operating cash.

The Company is closely monitoring its corporate financial bond holdings in light of the current credit market conditions. The table below summarizes the Company's significant exposures (defined as bonds issued by financial institutions with an amortized cost in excess of $50.0 million) to corporate bonds of financial issuers held within its available for sale investment portfolio at June 30, 2010, representing both amortized cost and unrealized gains (losses):

(U.S. dollars in millions)

Issuer (by Global Ultimate Parent)	Amortized Cost June 30, 2010 (1)	Unrealized Gain/ (Loss) June 30, 2010
Bank Of America Corporation	$ 215.0	$ (9.7)
Lloyds Banking Group Plc	159.5	3.8
The Goldman Sachs Group, Inc.	134.0	(3.9)
Citigroup Inc.	129.8	(6.9)
Morgan Stanley	128.0	0.7
Wells Fargo & Company	118.7	3.6
Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A.	114.7	(1.8)
JP Morgan Chase & Co.	111.9	(3.3)
HSBC Holdings Plc	110.4	(3.6)
Barclays Plc	108.2	(21.1)
Banco Santander, S.A.	106.7	(18.9)
BNP Paribas	103.1	(5.2)
Australia And New Zealand Banking Group Limited	96.5	2.0
Credit Agricole Sa	81.8	(11.2)
Aviva Plc	75.3	(16.1)
National Australia Bank Limited	72.9	(2.2)
Credit Suisse Group AG	70.7	1.5
The Bank Of Nova Scotia	60.2	1.0
RFS Holdings B.V.	59.8	3.6
Nationwide Building Society	59.7	(6.0)
Standard Chartered Plc	58.5	(1.6)
Legal & General Group Plc	54.9	(8.2)
Societe Generale	54.8	(1.0)
Assicurazioni Generali S.P.A.	54.7	(11.1)
Westpac Banking Corporation	52.8	1.4
Danske Bank A/S	50.5	(8.2)

(1) Government-guaranteed paper has been excluded from the above figures.

Within the Company's corporate financial bond holdings, the Company is further monitoring its exposures to hybrid securities, representing Tier One and Upper Tier Two securities of various financial institutions. The following table summarizes the top ten exposures to hybrid securities, listed by amortized cost representing both amortized cost and unrealized (losses):

(U.S. dollars in millions)

Issuer (by Global Ultimate Parent)	Tier One Amortized Cost June 30, 2010	Upper Tier Two Amortized Cost June 30, 2010	Total Amortized Cost June 30, 2010	Net Unrealized (Loss) June 30, 2010
Barclays, Plc	$ 51.6	$ 55.9	$ 107.5	$ (20.5)
Banco Santander, S.A.	45.6	31.1	76.7	(17.3)
Aviva PLC	5.5	49.6	55.1	(14.0)
Assicurazioni Generali S.P.A	54.7	—	54.7	(11.1)
Danske Bank A/S	31.8	18.5	50.3	(8.0)
Credit Agricole SA	9.3	39.5	48.8	(10.8)
Unicredit S.P.A.	33.2	—	33.2	(10.0)
Bank of America Corporation	28.5	—	28.5	(8.0)
Nordea Bank AB (PUBL)	—	27.2	27.2	(1.6)
BNP Paribas	25.9	—	25.9	(4.9)
Total	$ 286.1	$ 221.8	$ 507.9	$ (106.2)

At June 30, 2010, the top 10 corporate holdings listed below represent the direct exposure to the corporations listed below, including their subsidiaries, and excludes any securitized, credit enhanced and collateralized asset or mortgage backed securities, cash and cash equivalents, pooled notes and any OTC derivative counterparty exposure, if applicable.

Top 10 Corporate Holdings (1)	Percentage of Aggregate Fixed Income Portfolio (2)
Bank of America Corporation	0.6%
Pfizer Inc.	0.6%
General Electric Company	0.6%
Lloyds Banking Group PLC	0.5%
Wal-Mart Stores, Inc.	0.5%
AT&T Inc.	0.5%
Verizon Communications, Inc.	0.5%
Glaxosmithkline PLC	0.4%
The Goldman Sachs Group, Inc.	0.4%
Morgan Stanley	0.4%

(1) Corporate issuers exclude government-backed, government-sponsored enterprises and cash and cash equivalents.

(2) Includes fixed maturities, short-term investments, cash and cash equivalents and net payable for investments purchased and excludes government-guaranteed paper.

At June 30, 2010, the top 5 corporate sector exposures listed below represented 26.9% of the aggregate fixed income investment portfolio and 79.5% of all corporate holdings.

(U.S. dollars in millions)

Top 5 Sector Exposures	Fair Value	Percentage of Aggregate Fixed Income Portfolio
Financials (1)	$ 3,998.9	11.8%
Consumer, Non-Cyclical	2,069.5	6.1%
Utilities	1,233.8	3.6%
Communications	962.1	2.8%
Energy	864.1	2.6%
Total	$ 9,128.4	26.9%

(1) Government-guaranteed paper has been excluded from the above figures.

Within the Company's fixed income portfolios, the Company is further monitoring its exposures to holdings representing risk in certain Eurozone countries. In particular, the Company has government holdings of $29.0 million, corporate holdings of $421.3 million and structured credit holdings of $7.1 million in Greece, Ireland, Italy, Portugal and Spain. The corporate holdings primarily consist of multinationals with low reliance on local economics and systemically important industries such as utilities and telecoms.

The Company also has exposure to market movement related to credit risk associated with its mortgage-backed and asset-backed securities. The table below shows the breakdown of the $10.6 billion structured credit portfolio, of which 76.9% is AAA rated:

(U.S. dollars in millions)	Fair Value	Percentage of Structured Portfolio
CMBS	$ 1,266.1	12.0%
Agency RMBS	5,986.1	57.0%
Prime RMBS	413.0	3.9%
Core CDO (non-ABS CDOs and CLOs)	701.9	6.7%
Other ABS:		
ABS – Auto	306.5	2.9%
ABS – Credit Cards	219.3	2.1%
ABS – Other	882.3	8.3%
Topical:		
Sub-prime first lien	383.7	3.7%
Alt-A	307.9	2.9%
Second lien (including sub-prime second lien mortgages)	38.2	0.4%
ABS CDO's with sub-prime collateral	5.6	0.1%
Total	$ 10,510.6	100.0%

Credit Risk – Other

Credit derivatives are purchased within the Company's investment portfolio, have been sold through a limited number of contracts written as part of the Company's previous XL Financial Solutions business, and were previously entered into through the Company's prior reinsurance agreements with Syncora, as described below. From time to time, the Company may purchase credit default swaps to hedge an existing position or concentration of holdings. The credit derivatives are recorded at fair value. For further details with respect to the Company's exposure to Credit derivatives see Item 1, Note 6 to the Company's Consolidated Financial Statements, "Derivative Instruments", herein.

The Company has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, alternatives and other investment funds and other institutions. Many of these transactions expose the Company to credit risk in the event of default of the Company's counterparty. In addition, with respect to secured transactions, the Company's credit risk may be exacerbated when the collateral held by the Company cannot be sold or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure that is due. The Company also has exposure to financial institutions in the form of unsecured debt instruments, derivative transactions, revolving credit facility and letter of credit commitments and equity investments. There can be no assurance that any such losses or impairments to the carrying value of these assets would not materially and adversely affect the Company's business and results of operations.

With regards to unpaid losses and loss expenses recoverable and reinsurance balances receivable, the Company has credit risk should any of its reinsurers be unable or unwilling to settle amounts due to the Company; however, these exposures are not marked to market. For further information relating to reinsurer credit risk, see Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations –Unpaid Losses and Loss Expenses Recoverable and Reinsurance Balances Receivable."

The Company is exposed to credit risk in the event of non-performance by the other parties to its derivative instruments in general; however, the Company does not anticipate non-performance. The difference between the notional principal amounts and the associated market value is the Company's maximum credit exposure.

Equity Price Risk

The Company's equity investment portfolio as well as other investments, primarily representing certain derivatives and certain affiliate investments, are exposed to mark to market movements associated with equity price risk. Equity price risk is the potential loss arising from changes in the market value of equities. At June 30, 2010, the Company's equity portfolio was approximately $19.0 million as compared to $12.0 million at December 31, 2009. This excludes fixed income fund investments that generally do not have the risk characteristics of equity investments. At June 30, 2010 and December 31, 2009, the Company's direct allocation to equity securities was a negligible percentage of the total investment portfolio (including cash and cash equivalents, accrued investment income and net payable for investments purchased). The Company also estimates the equity risk embedded in certain alternative and private investments. Such estimates are derived from market exposures provided to the Company by certain individual fund investments and/or internal statistical analyses.

Other Market Risks

The Company's private investment portfolio is invested in limited partnerships and other entities which are not publicly traded. In addition to normal market risks, these positions may also be exposed to liquidity risk, risks related to distressed investments, and risks specific to startup or small companies. At June 30, 2010, the Company's exposure to private investments was $341.7 million, as compared to $322.4 million at December 31, 2009.

The Company's alternative investment portfolio, which is exposed to equity and credit risk as well as certain other market risks, had a total exposure of $878.0 million making up approximately 2.5% of the total investment portfolio (including cash and cash equivalents, accrued investment income and net payable for investments purchased) at June 30, 2010, as compared to December 31, 2009, where the Company had a total exposure of $800.2 million representing approximately 2.4% of the total investment portfolio.

At June 30, 2010, bond and stock index futures outstanding had a net long position of $90.1 million as compared to a net long position of $81.8 million at December 31, 2009. The Company may reduce its exposure to these futures through offsetting transactions, including options and forwards.

As noted above, the Company also invests in certain derivative positions which can be impacted by market value movements. For further details on derivative instruments see Item 1, Note 6 to the Company's Consolidated Financial Statements, "Derivative Instruments", herein.

Sensitivity and Value-at-Risk Analysis

The table below summarizes the Company's assessment of the estimated impact on the value of the Company's investment portfolio at June 30, 2010 associated with an immediate and hypothetical: +100bps increase in interest rates, a -10% decline in equity markets, a +100bps widening in spreads and a +10% widening in spreads. The table also reports the 95%, 1-year VaRs for the Company's investment portfolios at June 30, 2010, excluding foreign exchange.

The interest rate, spread risk, and VaR referenced in the table below include the impact of market movements on the Company's held-to-maturity fixed maturities. While the market value of these holdings is sensitive to prevailing interest rates and credit spreads, the Company's book value is not impacted as these holdings are carried at amortized cost. As at June 30, 2010, if the Company were to exclude these impacts in order to present the impact of these risks to the Company's book value, the interest rate risk would be reduced by approximately $66.0 million, absolute spread risk would be reduced by approximately $11.7 million, relative spread risk would be reduced by approximately $1.0 million, and VaR would be reduced by approximately $43.5 million. On August 1, 2010, the Company reclassified an additional $2.1 billion of fixed maturity securities to held to maturity.

The table below excludes the impact of foreign exchange rate risk on the investment portfolio. The investment portfolio is managed on an asset-liability matched basis, and accordingly any foreign exchange movements impact the assets and liabilities equally. See foreign exchange rate risk for further details. The Company considers that the investment portfolio VaR estimated results as well as P&C and Life investment portfolios VaR estimated results excluding foreign exchange rate risk are the more relevant and appropriate metrics to consider when assessing the actual risk of the portfolio.

The estimated results below also do not include any risk contributions from our various operating affiliates (strategic, investment manager or financial operating affiliates) or other investments carried at amortized cost.

(U.S. dollars in thousands)	Interest Rate Risk(2)	Equity Risk (3)	Absolute Spread Risk (4)	Relative Spread Risk (5)	VaR (6), (7)
Total Investment Portfolio (1)	**$ (1,208.1)**	**$ (56.0)**	**$ (1,219.0)**	**$ (234.5)**	**$ 1,217.1**
A. P&C Investment Portfolio	**$ (716.8)**	**$ (56.0)**	**$ (800.9)**	**$ (150.4)**	**$ 831.0**
(I) P&C Fixed Income Portfolio	(716.8)	—	(800.9)	(150.4)	821.2
(a) Cash & 0-1 Yr	(3.9)	—	—	—	10.9
(b) Total Government Related	(215.0)	—	(145.6)	(4.8)	173.7
(c) Total Corporate Credit	(288.1)	—	(336.8)	(53.9)	346.8
(d) Total Structured Credit	(209.8)	—	(318.5)	(91.7)	437.5
(II) P&C Non-Fixed Income Portfolio	—	(56.0)	—	—	111.2
(e) Equity Portfolio	—	(1.2)	—	—	17.0
(f) Alternative Portfolio	—	(19.8)	—	—	56.0
(g) Private Investments	—	(35.0)	—	—	99.9
B. Life Investment Portfolio	**$ (481.7)**	**$ —**	**$ (397.8)**	**$ (84.0)**	**$ 470.6**
(III) Life Fixed Income Portfolio	(481.7)	—	(397.8)	(84.0)	470.6
(i) Cash & 0-1 Yr	(0.6)	—	(0.3)	—	0.6
(j) Total Government Related	(195.1)	—	(75.6)	(3.3)	206.9
(k) Total Corporate Credit	(240.0)	—	(269.7)	(69.6)	280.1
(l) Total Structured Credit	(46.0)	—	(52.2)	(11.1)	53.0
(IV) Life Non-Fixed Income Portfolio	—	—	—	—	—

(1) The Company’s Total Investment Portfolio comprises the Company’s P&C Investment Portfolio and Life Investment Portfolio as well as the Company’s Business and Other Investments which do not form part of the Company’s P&C Investment Portfolio or Life Investment Portfolio. The individual results reported in the above table for the Company’s Total Investment Portfolio therefore represent the aggregate impact on the Company’s P&C Investment Portfolio, Life Investment Portfolio and the Company’s Business and Other Investments.

(2) The estimated impact on the fair value of the Company’s fixed income portfolio of an immediate hypothetical +100 bps adverse parallel shift in global bond curves.

(3) The estimated impact on the fair value of the Company’s investment portfolio of an immediate hypothetical -10% change in the value of equity exposures in the Company’s equity portfolio, certain equity-sensitive alternative investments and private equity investments. This includes the Company’s estimate of equity risk embedded in the alternatives and private investment portfolio with such estimates utilizing market exposures provided to the Company by certain individual fund investments and /or internal statistical analyses.

(4) The estimated impact on the fair value of the Company’s fixed income portfolio of an immediate hypothetical +100 basis point increase in all global corporate and structured credit spreads to which the Company’s fixed income portfolio is exposed. This excludes exposure to credit spreads in the Company’s alternative investments, private investments, and counterparty exposure.

(5) The estimated impact on the fair value of the Company’s fixed income portfolio of an immediate hypothetical +10% increase in all global corporate and structured credit spreads to which the Company’s fixed income portfolio is exposed. This excludes exposure to credit spreads in the Company’s alternative investments, private investments, and counterparty exposure.

(6) The VaR results are based on a 95% confidence interval, with a one year holding period, excluding foreign exchange rate risk. The Company’s investment portfolio VaR as at June 30, 2010 is not necessarily indicative of future VaR levels.

(7) The VaR results are the standalone VaRs, based on the prescribed methodology, for each component of the Company’s Total Investment Portfolio. The standalone VaRs of the individual components are non-additive, with the difference between the summation of the individual component VaRs and their respective aggregations being due to diversification benefits across the individual components. In the case of the VaR results for the Company’s Total Investment Portfolio, the results also include the impact associated with the Company’s Business and Other Investments.

(6) The VaR results are based on a 95% confidence interval, with a one year holding period, excluding foreign exchange rate risk. The Company's investment portfolio VaR as at June 30, 2010 is not necessarily indicative of future VaR levels.

(7) The VaR results are the standalone VaRs, based on the prescribed methodology, for each component of the Company's Total Investment Portfolio. The standalone VaRs of the individual components are non-additive, with the difference between the summation of the individual component VaRs and their respective aggregations being due to diversification benefits across the individual components. In the case of the VaR results for the Company's Total Investment Portfolio, the results also include the impact associated with the Company's Business and Other Investments

Stress Testing

VaR does not provide the means to estimate the magnitude of the loss in the 5% of occurrences when the Company expects the VaR level to be exceeded. To complement the VaR analysis based on normal market environments, the Company considers the impact on the investment portfolio in several different stress scenarios to analyze the effect of unusual market conditions. The Company establishes certain stress scenarios which are applied to the actual investment portfolio. As these stress scenarios and estimated gains and losses are based on scenarios established by the Company, they will not necessarily reflect future stress events or gains and losses from such events. The results of the stress scenarios are reviewed on a regular basis to ensure they are appropriate, based on current shareholders equity, market conditions and the Company's total risk tolerance. It is important to note that when assessing the risk of the Company's investment portfolio, the Company does not take into account either the value or risk associated with the liabilities arising from the Company's operations.

ITEM 4. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to provide reasonable assurance that all material information relating to the Company required to be included in this report has been made known to them in a timely fashion.

Changes in Internal Control Over Financial Reporting

There have been no changes in internal control over financial reporting identified in connection with the Company's evaluation required pursuant to Rules 13a-15 and 15d-15 promulgated under the Securities Exchange Act of 1934, as amended, that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 1. LEGAL PROCEEDINGS

In November 2006, a subsidiary of the Company received a grand jury subpoena from the Antitrust Division of the U.S. Department of Justice (“DOJ”) and a subpoena from the Securities and Exchange Commission (the “SEC”), both of which sought documents in connection with an investigation into the municipal GICs market and related products. In June 2008, subsidiaries of the Company also received a subpoena from the Connecticut Attorney General and an Antitrust Civil Investigative Demand from the Office of the Florida Attorney General in connection with a coordinated multi-state Attorneys General investigation into the matters referenced in the DOJ and SEC subpoenas. The Company is fully cooperating with these investigations.

Commencing in March 2008, the Company and two of its subsidiaries were named, along with approximately 20 other providers and insurers of municipal Guaranteed Investment Contracts and similar derivative products in the U.S. (collectively “Municipal Derivatives”) as well as fourteen brokers of such products, in several purported federal antitrust class actions. The Judicial Panel on Multidistrict Litigation ordered that these be consolidated for pretrial purposes and assigned them to the Southern District of New York. The consolidated amended complaint filed in August 2008 alleges that there was a conspiracy among the defendants during the period from January 1, 1992 to the present to rig bids and otherwise unlawfully decrease the yield for Municipal Derivative products. The purported class of plaintiffs consists of purchasers of Municipal Derivatives. On October 21, 2008 most of the defendants filed motions to dismiss the consolidated amended complaint. The District Judge granted the motions by order dated April 29, 2009, but allowed plaintiffs leave to file a second amended complaint. Plaintiffs filed a Second Consolidated Amended Class Action Complaint on June 18, 2009, but did not include the Company or any subsidiaries as a defendant. The remaining defendants in that action again moved to dismiss, which motion was denied by the Court on March 25, 2010.

In addition, the Company and three subsidiaries of the Company (along with numerous other parties) were named as defendants in eleven individual (i.e., non-class) actions filed by various municipalities or other local government bodies in California state and federal courts. The allegations are similar to the allegations in the Second Consolidated Amended Class Action Complaint described above. The defendants removed the state court cases to federal court, and all eleven cases were then transferred to the Southern District of New York by the Judicial Panel on Multidistrict Litigation. On April 26, 2010, the District Judge dismissed all eleven cases against the Company and its subsidiaries without prejudice, but denied motions to dismiss as respects most of the other defendants.

In August 2005, plaintiffs in a proposed class action (the “Class Action”) that was consolidated into a multidistrict litigation in the United States District Court for the District of New Jersey, captioned In re Brokerage Antitrust Litigation, MDL No. 1663, Civil Action No. 04-5184 (the “MDL”), filed a consolidated amended complaint (the “Amended Complaint”), which named as new defendants approximately 30 entities, including Greenwich Insurance Company, Indian Harbor Insurance Company and XL Group plc. In the MDL, the Class Action plaintiffs asserted various claims purportedly on behalf of a class of commercial insureds against approximately 113 insurance companies and insurance brokers through which the named plaintiffs allegedly purchased insurance. The Amended Complaint alleged that the defendant insurance companies and insurance brokers conspired to manipulate bidding practices for insurance policies in certain insurance lines and failed to disclose certain commission arrangements and asserted statutory claims under the Sherman Act, various state antitrust laws and the Racketeer Influenced and Corrupt Organizations Act (“RICO”), as well as common law claims alleging breach of fiduciary duty, aiding and abetting a breach of fiduciary duty and unjust enrichment. By Opinion and Order dated August 31, 2007, the Court dismissed the Sherman Act claims with prejudice and, by Opinion and Order dated September 28, 2007, the Court dismissed the RICO claims with prejudice. The plaintiffs then appealed both Orders to the U.S. Court of Appeals for the Third Circuit. Oral argument before the appellate court was held on April 21, 2009. In accordance with the Third Circuit’s April 23, 2009 directive, the parties submitted on May 13, 2009 their respective supplemental letter briefs addressing a question raised by the Court. The appeal remains pending.

Various XL entities have been named as defendants in three of the many tag-along actions that have been consolidated into the MDL for pretrial purposes. The complaints in these tag-along actions make allegations similar to those made in the Amended Complaint but do not purport to be class actions. On April 4, 2006, a tag-along complaint was filed in the U.S. District Court for the Northern District of Georgia on behalf of New Cingular Wireless Headquarters LLC and several other corporations against approximately 100 defendants, including Greenwich Insurance Company, XL Specialty Insurance Company, XL Insurance America, Inc., XL Insurance Company Limited, Lloyd’s syndicates 861, 588 and 1209 and the Company (now XL Group plc). On or about May 21, 2007, a tag-along complaint was filed in the U.S. District Court for the District of New Jersey on behalf of Henley Management Company, Big Bear Properties, Inc., Northbrook Properties, Inc., RCK Properties, Inc., Kitchens, Inc., Aberfeldy LP and Payroll and Insurance Group, Inc. against multiple defendants, including “XL Winterthur International.” On October 12, 2007, a complaint in a third tag-along action was filed in the U.S. District Court for the Northern District of Georgia by Sears, Roebuck & Co., Sears Holdings Corporation, Kmart Corporation and Lands’ End Inc. against many named defendants including X.L. America, Inc., XL Insurance America, Inc., XL Specialty Insurance Company and XL Insurance (Bermuda) Ltd. The three tag-along actions are currently stayed.

The Company and one of its subsidiaries (collectively "XL"), Syncora, four Syncora officers, and various underwriters of Syncora securities were named in a Consolidated Amended Complaint ("CAC") filed in August 2008 on behalf of shareholders of Syncora in the Southern District of New York. By Order dated March 31, 2010, Judge Deborah Batts granted motions to dismiss all claims asserted in the CAC as against all defendants principally on the basis of absence of loss causation and, granted the Plaintiffs leave to amend the CAC. The Plaintiffs filed a further amended complaint in June 2010. This complaint alleges violations of the Securities Act of 1933 arising out of the secondary public offering of Syncora common shares held by XL on June 6, 2007 as well as under the Securities Exchange Act of 1934 arising out of trading in Syncora securities during the asserted class period of July 24, 2007 to December 20, 2007. The principal allegations are that Syncora failed to appropriately and timely disclose its processes with respect to underwriting certain derivative contracts and insurance of tranches of structured securities. A subsidiary of the Company is named as a party that sold stock in the secondary public offering and the Company is named as a party that "controlled" Syncora during the relevant time period. The Company will vigorously defend this matter.

In connection with the secondary offering of the Company's Syncora shares, the Company and Syncora each agreed to indemnify the several underwriters of that offering against certain liabilities, including liabilities under the Securities Act of 1933 for payment of legal fees and expenses, settlements and judgments incurred with respect to litigation such as this. The Company and Syncora have agreed to each bear 50% of this indemnity obligation.

The Company is subject to litigation and arbitration in the normal course of its 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 legal 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, amongst 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. The Company believes that the expected ultimate outcome of all outstanding litigation and arbitration will not have a material adverse effect on its consolidated financial condition, operating results and/or cash flow, although an adverse resolution of one or more of these items could have a material adverse effect on the Company's results of operations in a particular fiscal quarter or year.

ITEM 1A. RISK FACTORS

Refer to Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 for further information.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Purchases of Equity Securities by the Issuer and Affiliate Purchasers

The following table provides information about purchases by the Company during the three months ended June 30, 2010 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
April 1-30, 2010	—	—	—	375.5 million
May 1-31, 2010	—	—	—	375.5 million
June 1-30, 2010	—	—	—	375.5 million
Total	—	—	—	375.5 million

(1) All shares were purchased in connection with the vesting of restricted shares granted under the Company's restricted stock plan. All of these purchases were made in connection with satisfying tax withholding obligations of those employees. These shares were not purchased as part of the Company's share repurchase program noted below.

(2) On September 24, 2007, the Board of Directors of the Company approved a share repurchase program, authorizing the Company to repurchase up to $500.0 million of its Class A ordinary shares. During the quarter ended June 30, 2010, no share repurchases were made under the share repurchase program. As at June 30, 2010, the Company could repurchase $375.5 million of its equity securities under the share repurchase program.

ITEM 6. EXHIBITS

10.1** 1991 Performance Incentive Program (as amended and restated).

10.2** Directors Stock and Option Plan (as amended and restated).

10.3** Supplemental Deferred Compensation Plan (as amended and restated).

10.4** 2009 Cash Long Term Incentive Program (as amended and restated).

10.5** Form of Option Award Agreement (for use with awards granted on or after July 1, 2010).

10.6** Form of Restricted Stock Unit Award Agreement (for use with awards granted on or after July 1, 2010).

10.7** Form of Restricted Stock Unit Award Agreement for Employees Subject to IRC Section 457A (for use with awards granted on or after July 1, 2010).

10.8** Form of Performance Unit Award Agreement (for use with awards granted on or after July 1, 2010).

10.9** Form of Performance Unit Award Agreement for Employees Subject to IRC Section 457A (for use with awards granted on or after July 1, 2010).

31** Rule 13a-14(a)/15d-14(a) Certifications.

32** Section 1350 Certification.

** Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 6, 2010

XL Group plc
(Registrant)

/s/ MICHAEL S. MCGAVICK

Name: Michael S. McGavick
Title: Chief Executive Officer and Director
XL Group plc

Date: August 6, 2010

/s/ IRENE M. ESTEVES

Name: Irene M. Esteves
Title: Executive Vice President and Chief Financial Officer
XL Group plc

Exhibit 10.1

XL GROUP plc

(formerly XL Capital Limited)

1991 PERFORMANCE INCENTIVE PROGRAM

(AS AMENDED AND RESTATED ON APRIL 30, 2010)

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1. INTRODUCTION

A. *Purpose of the Program*

XL Group plc (the “Company”) has established the Program to further its long-term financial success by offering stock, and stock-based compensation, to employees of the Company whereby they can share in achieving and sustaining such success. The Program also provides a means to attract and retain the executive talent needed to achieve the Company’s long-term growth and profitability objectives.

B. *Definitions*

When used in the Program, the following terms shall have the meanings set forth below:

“Award(s)” shall mean Performance Shares, Restricted Stock, Restricted Stock Units, Incentive Stock Options, Nonstatutory Stock Options, Stock Appreciation Rights or Performance Units granted under the Program.

“Board” shall mean the Board of Directors of the Company.

“Change of Control” shall be deemed to have occurred if and when any person, meaning an individual, a partnership, or other group or association as defined in Sections 13(d) and 14(d) of the United States Securities Exchange Act of 1934 (other than a group of which the Company is a member or which has been organized by the Company for the purpose of making such acquisition), acquires, directly or indirectly, 40 percent or more of the combined voting power of the outstanding securities of the Company having a right to vote in the election of directors, including but not limited to a transaction pursuant to i) a compromise or arrangement sanctioned by the Court under section 201 of the Companies Act 1963 of the Republic of Ireland or ii) section 204 of the Companies Act 1963 of the Republic of Ireland. Ownership of 40 percent or more of the combined voting power of the outstanding securities of the Company by any person controlled directly or indirectly by the Company shall not be deemed a Change of Control of the Company.

“Code” shall mean the United States Internal Revenue Code of 1986, as amended.

“Committee” shall mean the entire Board or the Compensation Committee, or such other committee or subcommittee of the Board as may be designated by the Board to administer the Program.

“Common Stock” shall mean the ordinary shares of the Company and may be either stock previously authorized but unissued, or stock reacquired by the Company.

“Company” shall mean XL Group plc, an Irish company, any other entity in which XL Group plc owns 20% or more of the ordinary voting power or equity, and any successor in a reorganization or similar transaction.

“Disability” shall mean the inability of a Participant to perform the services normally rendered due to any physical or mental impairment that can be expected to be of either permanent or indefinite duration, as determined by the Committee on the basis of appropriate medical evidence, and that results in the Participant’s Termination of Employment; *provided, however,* that with respect to any Participant who has entered into an employment agreement with the Company, the term of which has not expired at the time a determination concerning Disability is to be made, Disability shall have the meaning attributed in such employment agreement.

“Fair Market Value” shall mean with respect to a given day, the closing sales price of Common Stock, as reported by such responsible reporting service as the Committee may select, or if there were no transactions in the Common Stock on such day, then the last preceding day on which transactions took place. The foregoing notwithstanding, the Committee may determine the Fair Market Value in such other manner as it may deem more appropriate for Program purposes or as is required by applicable laws or regulations.

“Incentive Stock Option” or “ISO” shall mean a right to purchase the Company’s Common Stock which is intended to comply with the terms and conditions for an incentive stock option as set forth in Section 422 of the Code, or such other sections of the Code as may be in effect from time to time.

“Nonstatutory Stock Option” or “NQSO” shall mean a right to purchase the Company’s Common Stock which is not intended to comply with the terms and conditions for a tax-qualified stock option, as set forth in Section 422 of the Code, or such other sections of the Code as may be in effect from time to time.

“Participant” shall mean any employee of the Company and any member of the Board (whether or not an employee of the Company) who, in the judgment of the Committee, is in a position to make a substantial contribution to the management, growth, and success of the Company and is thus designated by the Committee to receive an Award; *provided, however,* that after April 29, 2005 no Award may be granted under the Program to a member of the Board who is not also an employee of the Company.

“Performance Goal” shall mean any financial, statistical or other measure selected by the Committee, including without limitation (a) the attainment of a specified financial or statistical objective or (b) the performance of the Company relative to a peer group as applicable to a specific Performance Period.

“Performance Period” shall mean a period set by the Committee over which Performance Shares or Performance Units may be earned. There may be more than one Performance Period in existence at any one time, and the duration of Performance Periods may differ from each other.

“Performance Shares” shall mean Common Stock granted to a Participant with respect to a Performance Period under Article III of the Program, together with any other rights attached thereto or associated therewith including without limitation any right to receive cash in connection therewith.

“Performance Unit” shall mean a cash award made pursuant to Section VI of the Program.

“Program” shall mean the Company’s 1991 Performance Incentive Program, as amended and restated herein.

“Restricted Stock” shall mean a share of Common Stock granted to a Participant under Article IV of the Program. Restricted Stock awards entitle the Participant to receive shares of Common Stock which have certain restrictions that lapse upon satisfaction of conditions imposed by the Committee at the time of award.

“Restricted Stock Unit” shall mean an award made under Article VIII of the Program under which each unit represents a right to receive a share of Common Stock upon the terms, and subject to the conditions, set forth by the Committee.

“Retirement” shall mean, except as otherwise set forth in an Award agreement, a Participant’s Termination of Employment by reason of the Participant’s retirement at his normal retirement date, pursuant to and in accordance with a pension, retirement or similar plan or other regular retirement practice of the Company, or in accordance with the early retirement provisions thereof.

“Stock Appreciation Rights” or “SARs” shall mean a right granted to a Participant under Article V of the Program, which grants the Participant the right to receive the difference between the Fair Market Value of the Common Stock on the date of exercise and the price at which the SAR was granted.

“Termination of Employment” shall mean a cessation of the employee-employer relationship between a Participant and the Company for any reason or, in the case of a member of the Board, termination of the director’s service on the Board for any reason.

II. PROGRAM ADMINISTRATION

A. *Administration*

The Program shall be administered by the Committee. Subject to the express provisions of the Program, the Committee shall have full and exclusive authority to interpret the Program, to prescribe, amend and rescind rules and regulations relating to the Program and to make all other determinations deemed necessary or advisable in the implementation and administration of the Program; *provided, however,* that subject to the express provisions hereof or

unless required by applicable law or regulation, no action of the Committee shall adversely affect the terms and conditions of any Award made to, or any rights hereunder or under any grant letter of, any Participant, without such Participant's consent. The Committee's interpretation and construction of the Program shall be conclusive and binding on all persons, including the Company and all Participants. The Company and the Committee may delegate their authority to perform any of their ministerial or similar administrative functions under this Program to other persons.

B. *Participation*

The Committee may, from time to time, make all determinations with respect to selection of Participants and the Award or Awards to be granted to each Participant. In making such determinations, the Committee may take into account the nature of the services rendered or expected to be rendered by the respective Participants, their present and potential contributions to the Company's success and such other factors as the Committee in its discretion shall deem relevant.

C. *Maximum Number of Shares Available*

Subject to adjustment as provided under Article II, Paragraph D of the Program, the maximum number of shares which may be granted under the Program after February 27, 2009 is 16,969,264 plus shares which subsequently become available as a result of forfeitures, cancellation or expiration of Awards under the Program. Stock can be issued as any form of Award, except that, for each Restricted Stock, Restricted Stock Unit, Stock Appreciation Rights, or Performance Share Award issued, the number of shares of Common Stock available under the Program will be reduced by two shares. In the event that an Award issued under the Program expires or is terminated unexercised as to any shares covered thereby, or shares are forfeited for any reason under the Program, such shares shall thereafter be again available for issuance under the Program. At the Committee's discretion, these shares may be granted as stock options, Performance Shares, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights or any combination of these provided that the combined total number of shares granted does not exceed either the overall share authorization described above or the specific share authorization set forth above for Performance Shares, Stock Appreciation Rights, Restricted Stock and Restricted Stock Units. Forfeited Awards that counted as two shares under the rule described above will result in the addition to shares available for issuance under the Program of two available shares per share forfeited, but any subsequent issuance of those shares in the form of Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, or Performance Share Awards will result in a reduction of two shares available under the Program for each share issued.

Subject to adjustment as provided under Article II, Paragraph D of the Program, (i) the maximum number of shares of Common Stock with respect to which stock options and Stock Appreciation Rights may be granted during a calendar year to any Participant under the Program shall be 1,000,000 shares, and (ii) with respect to Performance Shares, Performance Units, Restricted Stock or Restricted Stock Units intended to qualify, as set forth in Article VII, as performance-based compensation within the meaning of Section 162(m) of the Code, the maximum number of shares of Common Stock (or amount of cash in the case of Performance Units) subject to such awards granted during a calendar year to any Participant under the Program shall be the equivalent of 300,000 shares.

No Incentive Stock Options shall be granted after April 29, 2018.

D. *Adjustments*

In the event of any alteration or re-organization whatsoever taking place in the capital structure of the Company whether by way of capitalization of profits or reserves, capital distribution, rights issue, consolidation or sub-division of Shares, the conversion of one class of share to another or reduction of capital or otherwise, the number of shares of Common Stock available for grant under this Program shall be adjusted proportionately or otherwise by the Board, and where deemed appropriate, the number of shares covered by outstanding stock options or SARs, the number of Performance Shares, shares of Restricted Stock and Restricted Stock Units outstanding, and the exercise price of outstanding stock options and SARs shall be similarly adjusted. Also, in instances where another corporation or other business entity is acquired by the Company, and the Company has assumed outstanding employee option grants under a prior existing plan of the acquired entity, similar adjustments are permitted at the discretion of the Committee. In the event of any other change affecting the Common Stock reserved under the Program, such adjustment, if any, as may be deemed equitable by the Board, shall be made to give proper effect to such event. Notwithstanding any provision hereof to the contrary, i) no adjustment shall be made pursuant to this Article II.D. that would cause any Award that is not otherwise deferred compensation pursuant

to Section 409A of the Code to be treated as deferred compensation pursuant to Section 409A of the Code, and ii) no adjustment may be made that reduces the amount to be paid up per share to less than the par value of the share.

E. *Registration Conditions*

1. Unless issued pursuant to a registration statement under the U.S. Securities Act of 1933, as amended, no shares shall be issued to a Participant under the Program unless the Participant represents and agrees with the Company that such shares are being acquired for investment and not with a view to the resale or distribution thereof, or such other documentation is provided by the Participant as may be required by the Company, unless in the opinion of counsel to the Company such representation, agreement or documentation is not necessary to comply with such Act.

2. Any on the resale of shares shall be evidenced by the following legend on the stock certificate or other such legend as the Company deems appropriate.

"The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended. The shares cannot be offered, transferred or sold unless (a) a registration statement under such Act is in effect with respect to such shares, or (b) a written opinion from counsel acceptable to the Company is obtained to the effect that no such registration is required. The Company reserves the right to refuse the transfer of such shares until such conditions have been fulfilled. The Articles of Association of the Company contain other restrictions on share transfers."

Any certificate issued at any time in exchange or substitution for any certificate bearing such legend (or such other legend deemed appropriate by the Company) shall also bear such a legend unless, in the opinion of counsel or the Company, the securities represented thereby need no longer be subject to the restriction contained herein. The provisions of this paragraph shall be binding upon all subsequent holders of certificates bearing such legend.

F. *Committee Action*

The Committee may, through Award agreements, limit its discretion under this Program. To the extent such discretion is not specifically waived in an Award agreement, the Committee shall retain such discretion.

G. *No Option or SAR Repricing Without Shareholder Approval*

Except as provided in Article II.D hereof relating to certain anti-dilution adjustments, unless the approval of shareholders of the Company is obtained, ISOs, NQSOs and SARs issued under the Program shall not be amended to lower their exercise prices, and ISOs, NQSOs and SARs issued under the Plan will not be exchanged for other stock options or SARs with lower exercise prices.

III. PERFORMANCE SHARES

A. *Grant of Performance Shares*

After selecting Participants who will receive Awards of Performance of Shares for a given Performance Period, the Committee shall inform each such Participant of the Award to be granted to the Participant at the completion of the Performance Period, and the applicable terms and condition of the Award. The Committee shall cause to be issued to each Participant a grant letter specifying the number of Performance Shares under his Award and the number of Performance Shares which may be awarded subject to the terms and conditions of such grant letter and the Program.

B. *Establishment of Performance Goals*

1. The Committee shall establish the Performance Goals for each Performance Period. The Committee shall also establish a schedule for such Performance Period setting forth the percentage of the Performance Share Award which will be earned, based on the extent to which the Performance Goals for such Performance Period are actually achieved, the date on which Performance Shares awarded hereunder shall vest, or the date on which such Performance Shares shall be forfeited (in whole or in part) by the Company for failure to meet the Performance Goals, as specified by the Committee.

2. As promptly as practical after each Performance Period, the Committee shall determine whether, or the extent to which, the Performance Goals have been achieved. Based on such determination, the Participant shall be deemed to have earned the Performance Shares awarded to him, or a percentage thereof as provided in any schedule established by the Committee. In addition, the Committee may, from time to time during a Performance Period and consistent with the terms and conditions of applicable Awards and Performance Goals, determine that all or a portion of the Performance Shares awarded to one or more Participants have been earned.

3. If during the course of a Performance Period, there should occur, in the opinion of the Committee, significant changes in economic conditions or in the nature of the operations of the Company, or any other pertinent changes which the Committee did not foresee or accurately predict the extent of in establishing the Performance Goals for such Performance Period and which, in the Committee's sole judgment, have, or are expected to have, a substantial effect on the performance of the Company during the Performance Period, the Committee may make such adjustment to the Performance Goals or measurements of such Performance Goals as the Committee, in its sole judgment, may deem appropriate.

C. *Termination of Employment*

In the event of a Participant's Termination of Employment prior to satisfaction of conditions related to outstanding Performance Share Awards for reasons other than discharge or resignation, the Participant or the Participant's estate or beneficiary, in the sole discretion of the Committee, may be entitled to receive from Performance Shares held by the Corporation a pro rata number of shares with respect to that Performance Share Award, or such other portion of the Award, if any, as the Committee shall determine. In the event of Termination of Employment due to resignation or discharge, the Award will be cancelled, and the Participant shall not be entitled to any further consideration with respect to the forfeited Performance Shares, subject to the discretion of the Committee to release restrictions on all or any part of an Award.

IV. RESTRICTED STOCK

A. *Grant of Restricted Stock*

1. Following the selection of Participants who will receive a Restricted Stock Award, the Committee shall inform each such Participant of the number of Restricted Stock shares granted to the Participant and the terms and applicable conditions of the Award.

2. Each certificate for Restricted Stock shall be registered in the name of the Participant and deposited, together with a stock power endorsed in blank, with the Company.

B. *Other Terms and Conditions*

Company stock, when awarded pursuant to a Restricted Stock Award, will be represented by a stock certificate registered in the name of the Participant who is granted the Restricted Stock Award. Such certificate shall be deposited together with a stock power endorsed in blank with the Company. The Participant shall be entitled to receive dividends and all other distributions during the restriction period and shall have all shareholder's rights with respect to such stock, if any, with the exception that: (1) the Participant may not transfer ownership of the shares during the restriction period except by will or the laws of descent and distribution, (2) the Participant will not be entitled to delivery of the stock certificate during the restriction period, (3) the Company will retain custody of the stock during the restriction period, and (4) a breach of a restriction or a breach of the terms and conditions established by the Committee pursuant to the Restricted Stock Award will cause a forfeiture of the Restricted Stock shares. The Committee may impose additional restrictions, terms, or conditions upon the Restricted Stock Award.

C. *Restricted Stock Award Agreement*

Each Restricted Stock Award shall be evidenced by a Restricted Stock Award agreement in such form and containing such terms and conditions not inconsistent with the provisions of the Program as the Committee from time to time shall approve.

D. *Termination of Employment*

In the event of a Participant's Termination of Employment prior to satisfaction of conditions related to outstanding Restricted Stock Awards for reasons other than discharge or resignation, the Participant or the Participant's estate or beneficiary, in the sole discretion of the Committee, may be entitled to receive from Restricted Stock shares held by the Corporation a pro rata number of shares with respect to that Restricted Stock Award, or such other portion of the Restricted Stock Award, if any, as the Committee shall determine. In the event of Termination of Employment due to resignation or discharge, all Restricted Stock shares held by the Company shall be forfeited, and the Participant shall not be entitled to any further consideration with respect to the forfeited Restricted Stock shares, subject to the discretion of the Committee to release of restrictions on all or any part of an Award, or unless otherwise stated in the Restricted Stock agreement.

E. *Payment for Restricted Stock*

Restricted Stock Awards may be made by the Committee under which the Participant shall, upon payment of the par value, or, in the alternative, under which the Participant shall pay all (or any lesser amount than all) of the Fair Market Value of the stock, determined as of the date the Restricted Stock Award is made, receive a Restricted Stock Award. If payment is required, such purchase price shall be paid as provided in the Restricted Stock Award Agreement.

V. STOCK OPTIONS

A. *Stock Option Terms and Conditions*

All stock options granted to Participants under the Program shall be evidenced by agreements which shall be subject to applicable provisions of the Program, and such other provisions as the Committee may adopt, including the following provisions:

1. *Price:* The option price per share of Nonstatutory Stock Options (NQSOs) and Incentive Stock Options (ISOs) shall not be less than 100 percent of the Fair Market Value of a share of Common Stock on the date of grant.

2. *Period:* An ISO shall not be exercisable for a term longer than ten years from date of its grant. NQSOs shall have a term not longer than ten years from the date of grant.

3. *Time of Exercise:* The Committee may prescribe the timing of the exercise of the stock option and any minimums and installment provisions and may accelerate the time at which a stock option becomes exercisable.

4. *Exercise Procedures:* A stock option, or a portion thereof, shall be exercised by delivery of notice of exercise to the Company or the Program administrator designated from time to time by the Company and payment of the full price of the shares being purchased. Such notice shall be given in the form designated from time to time by the Company.

5. *Payment:* The price of an exercised stock option, or portion thereof, may be paid:

(a) in cash or check, bank draft or money order payable to the order of the Company; or

(b) through the delivery of shares of Common Stock owned by the Participant, having an aggregate Fair Market Value as determined on the date of exercise equal to the option price, or

(c) by a combination of both a and b above.

The Committee may impose such limitations and prohibitions on the use of any shares of Common Stock to exercise a stock option as it deems appropriate.

6. *Special Rule for Incentive Stock Options:* Notwithstanding any other provisions of the Program, the aggregate Fair Market Value of the shares of Common Stock, determined as of the time the stock option is granted, for which the

Participant may first exercise Incentive Stock Options in any calendar year shall not exceed U.S. $100,000 or such other individual employee grant limit as may be in effect under the Code.

7. *Effect of Leaves of Absence:* It shall not be considered a Termination of Employment when a Participant is placed by the Company on military leave, sick leave or other bona fide leave of absence. In case of such leave of absence, the employment relationship for Program purposes shall be continued until the later of the date when such leave of absence equals ninety days or when the Participant's right to reemployment with the Company shall no longer be guaranteed either by statute or contract.

8. *Termination of Employment:* In the event of Termination of Employment, the following provisions shall apply unless waived by the Committee, or as otherwise specifically provided in the Stock Option agreement:

(a) Discharge for Cause: All outstanding options shall be cancelled

(b) Termination Other Than for Cause: Unless and except as otherwise specified in a Participant's agreement, all options shall expire on the earlier of (i) 90 days following the Termination of Employment or (ii) the expiration of the full term of the option.

Notwithstanding the foregoing, the Committee may rescind the right to exercise stock options following Termination of Employment if the Participant has been found to be directly or indirectly engaged in any activity which is in competition with the Company or otherwise adverse to or not in the best interest of the Company.

B. *Stock Appreciation Rights (SARs).*

The Committee is authorized to grant SARs to Participants on the following terms and conditions:

1. An SAR shall confer on the Participant to whom it is granted a right to receive with respect to each share of Common Stock subject thereto, upon exercise thereof, the excess of (1) the Fair Market Value of one share of Common Stock on the date of exercise over (2) the exercise price per share of the SAR, as determined by the Committee as of the date of grant of the SAR (which shall not be less than the Fair Market Value per Share on the date of grant of the SAR).

2. The Committee shall determine, at the time of grant or thereafter, the time or times at which an SAR may be exercised in whole or in part (which shall not be more than ten years after the date of grant of the SAR), the method of exercise, method of settlement, method by which shares of Common Stock will be delivered or deemed to be delivered to Participants, whether or not an SAR shall be in tandem with any other Award, and any other terms and conditions of any SAR. The Committee shall determine at the time of grant of the SAR the form of consideration payable in settlement of the SAR (which may be shares of Common Stock or cash).

VI. PERFORMANCE UNIT AWARDS

A. Each Award shall be subject to the limitations and terms provided in the Program. A new Award may commence on the first anniversary date of the preceding Award. The Committee shall grant to each Participant in a Performance Unit Award a number of units with a target cash value as shall be established by the Committee prior to the first year of each Performance Period.

B. To allow for recognition of significant individual contributions to the Company's performance, individual awards of Performance Units may be granted to new Participants during the first year of a Performance Period, at the discretion of the Committee.

C. Performance Unit Awards for each Participant shall be recommended by the Chief Executive Officer and submitted to the Committee for approval. Participants will generally be notified of their individual Performance Unit Award within the first six months of a Performance Period.

D. Performance Goals for each Performance Period will be recommended by the Chief Executive Officer of the Company, and submitted to the Committee for approval.

E. Once a Performance Period has begun and Performance Goals have been established, they may not be changed for that Performance Period except in the event of:

(1) A significant acquisition of another business concern by the Company, as deemed by the Committee;

(2) A disposition of a significant part of the business by the Company, as deemed by the Committee;

(3) An external calamitous event, such as a natural disaster, which has a significant effect on the Company, as determined by the Committee;

(4) Any significant changes to the legislation, as deemed by the Committee; or

(5) Any other extraordinary event, as deemed by the Committee.

F. A performance valuation schedule shall be recommended by the Chief Executive Officer of the Company and approved by the Committee before Performance Unit Awards are granted under the Program. The Committee shall approve or modify the proposed schedule which will contain various levels of performance and corresponding Performance Unit values.

G. At the end of a Performance Period, the Committee shall review actual performance and determine the Award payouts, if any.

H. In the event of a Participant's Termination of Employment prior to the satisfaction of conditions related to outstanding Performance Unit Awards for reasons other than discharge or resignation, the Participant, or the Participant's estate or beneficiary, in the sole discretion of the Committee, may be entitled to receive a pro-rata distribution of outstanding Performance Unit Awards. In the event of Termination of Employment due to resignation or discharge, all Awards will be cancelled, and the Participant shall not be entitled to any further consideration with respect to the forfeited Performance Units, subject to the discretion of the Committee.

VII. PERFORMANCE AWARDS

A. *Performance Awards Granted to Designated Participants*

If the Committee determines that an award of Performance Shares, Performance Units, Restricted Stock or Restricted Stock Units to be granted to a Participant should qualify as "performance-based compensation" for purposes of Section 162(m) of the Code, the grant, vesting and/or settlement of such award shall be contingent upon achievement of pre-established performance goals and other terms set forth in this Article VII.A.

1. *Performance Goals Generally.* The performance goals for such awards ("Performance Awards") shall consist of one or more business criteria and a targeted level or levels of performance with respect to each of such criteria, as specified by the Committee consistent with this Article VII.A. Performance goals shall be objective and shall otherwise meet the requirements of Section 162(m) of the Code and regulations thereunder (including Regulation 1.162-27 and successor regulations thereto). The Committee may determine that such Performance Awards shall be granted, vested and/or settled upon achievement of any one performance goal or that two or more of the performance goals must be achieved as a condition to grant, vesting and/or settlement of such Performance Awards. Performance goals may differ for Performance Awards granted to any one Participant or to different Participants.

2. *Business Criteria.* One or more of the following business criteria for the Company, on a consolidated basis, and/or for specified subsidiaries or business units of the Company (except with respect to the total stockholder return and earnings per share criteria), shall be used by the Committee in establishing performance goals for such Performance Awards: (1) earnings per share; (2) revenues; (3) cash flow; (4) cash flow return on investment; (5) return on assets, return on investment, return on capital, return on equity; (6) economic value added; (7) operating margin; (8) net income; pretax earnings; pretax earnings before interest, depreciation and amortization; pretax operating earnings after interest expense and before incentives, service fees, and extraordinary or special items; operating earnings; (9) total stockholder

return; and (10) any of the above goals as compared to the performance of a published or special index deemed applicable by the Committee including, but not limited to, the Standard & Poor's 500 Stock Index.

3. *Performance Period; Timing for Established Performance Goals.* Achievement of performance goals in respect of such Performance Awards shall be measured over a performance period, as specified by the Committee. Performance goals shall be established not later than 90 days after the beginning of any performance period applicable to such Performance Awards, or at such other date as may be required or permitted for "performance-based compensation" under Section 162(m) of the Code.

4. *Settlement of Performance Awards; Other Terms.* Settlement of such Performance Awards shall be in cash, Common Stock or other property, in the discretion of the Committee. The Committee may, in its discretion, reduce the amount of a settlement otherwise to be made in connection with such Performance Awards, but may not exercise discretion to increase any such amount payable to a Participant in respect of a Performance Award subject to this Article VII.A. The Committee shall specify the circumstances in which such Performance Awards shall be paid or forfeited in the event of Termination of Employment by the Participant prior to the end of a performance period or settlement of Performance Awards.

B. *Written Determination*

All determinations by the Committee as to the establishment of performance goals or potential individual Performance Awards and as to the achievement of performance goals relating to Performance Awards under Article VII.A. shall be made in writing in the case of any award intended to qualify under Section 162(m) of the Code.

VIII. RESTRICTED STOCK UNITS

A. *Grant of Restricted Stock Units*

Following the selection of Participants who will receive an award of Restricted Stock Units, the Committee shall inform each such Participant of the number of Restricted Stock Units granted to the Participant and the terms and applicable conditions of the Restricted Stock Unit Award.

B. *Other Terms and Conditions*

Restricted Stock Unit Awards will provide for the delivery of the number of shares of Common Stock equivalent to the number of Restricted Stock Units at the time and subject to the terms and conditions set forth by the Committee. Delivery of shares of Common Stock pursuant to the Restricted Stock Unit Awards will occur upon expiration of the deferral period specified by the Committee. In addition, Restricted Stock Unit Awards shall be subject to such restrictions, including forfeiture conditions, as the Committee may impose. Prior to distribution of shares of Common Stock under a Restricted Stock Unit Award, the Participant shall have no rights as a shareholder with respect to the shares subject to the Award.

C. *Restricted Stock Unit Award Agreement*

Each Restricted Stock Unit Award shall be evidenced by a Restricted Stock Unit Award Agreement in such form and containing such terms and conditions, not inconsistent with the provisions of the Program, as the Committee from time to time shall approve.

D. *Termination of Employment*

In the event of a Participant's Termination of Employment prior to satisfaction of conditions related to an outstanding Restricted Stock Unit Award for reasons other than discharge or resignation, the Participant or the Participant's estate or beneficiary, in the sole discretion of the Committee, may be entitled to receive from the Restricted Stock Unit Award a pro rata number of shares with respect to the Restricted Stock Unit Award, or such other portion of the Restricted Stock Unit Award, if any, as the Committee shall determine. In the event of Termination of Employment due to resignation or discharge, all Restricted Stock Units held by the Participant shall be forfeited, and the Participant shall not be entitled to any further consideration with respect to the forfeited Restricted Stock Units, subject to the discretion of the Committee to

release restrictions and deliver shares in respect of all or any part of an Award, or unless otherwise stated in the Restricted Stock Unit Award Agreement.

IX. GENERAL PROVISIONS

A. *Amendment and Termination of Program*

The Board may, at any time and from time to time, suspend or terminate the Program in whole or amend it from time to time in such respects as the Board may deem appropriate; *provided, however,* that, without the consent of an affected Participant, no amendment, suspension, or termination of the Program may adversely affect the rights of such Participant under any Award theretofore granted to him or her.

B. *Government and Other Regulations*

The right of the Company to issue Awards under the Program shall be subject to all applicable laws, rules and regulations, and to such approvals by any government agencies as may be required.

C. *Other Compensation Plans and Programs*

The Program shall not be deemed to preclude the implementation by the Company of other compensation plans or programs which may be in effect from time to time.

D. *Miscellaneous Provisions*

1. *No Right to Continue Employment:* Nothing in the Program or in any Award confers upon any Participant the right to continue in the employ of the Company or interferes with or restricts in any way the rights of the Company to discharge any Participant at any time for any reason whatsoever, with or without cause.

2. *Non-Transferability:* Except as otherwise determined by the Committee and set forth in the applicable Award agreement, prior to being earned under Articles III, IV, or VI, being exercised under Article V, or having shares distributed under Article VIII, no right or interest of any Participant in any Award under the Program shall be (a) assignable or transferable, except by will or the laws of descent and distribution or a valid beneficiary designation taking effect at death made in accordance with procedures established by the Committee, or (b) liable for, or subject to, any lien, obligation or liability, except to the extent that Non-Qualified Stock Options may be pledged as security in a margin account for their exercise.

3. *Designation of Beneficiary:* A Participant, in accordance with procedures established by the Committee, may designate a person or persons to receive, in the event of the Participant's death, (a) any payments with respect to which the Participant would then be entitled, and (b) the right to continue to participate in the Program to the extent of such Participant's outstanding Awards. Such designation shall be made upon forms supplied by and delivered to the Company and may be revoked in writing.

4. *Withholding Taxes:* The Company may require a payment from a Participant to cover applicable withholding for income and employment taxes. The Company reserves the right to offset such tax payment from any other funds which may be due the Participant by the Company.

5. *Program Expenses:* Any expenses of administering the Program shall be borne by the Company.

6. *Construction of Program:* The interpretation of the Program and the application of any rules implemented hereunder shall be determined solely in accordance with the laws of the State of New York.

7. *Unfunded Program:* The Program shall be unfunded, and the Company shall not be required to segregate any assets which may at any time be represented by Awards. Any liability of the Company to any person with respect to an Award under this Program shall be based solely upon any obligations which may be created by this Program. No such

obligation of the Company shall be deemed to be secured by any pledge or other encumbrance on any property of the Company.

8. *Benefit Plan Computations:* Except as otherwise determined by the Company, any benefits received or amounts paid to a Participant with respect to any Award granted under the Program shall not have any effect on the level of benefits provided to or received by any Participant, or the Participant’s estate or beneficiary, as part of any employee benefit plan (other than the Program) of the Company.

9. *Pronouns, Singular and Plural:* The masculine maybe read as feminine, the singular as plural and the plural as singular as necessary to give effect to the Program.

E. *Effective Dates*

The amendment and restatement of the Program will become effective on approval by the Board of the Company, subject to shareholder approval. All outstanding Awards shall remain in effect until all outstanding awards have been earned, have been exercised or repurchased, have expired or have been cancelled.

F. *Section 409A*

It is intended that the Plan and Awards issued thereunder will comply with Section 409A of the Code (and any regulations and guidelines issued thereunder) to the extent the Awards are subject thereto, and the Plan and such Awards shall be interpreted on a basis consistent with such intent. The Plan and any Award agreements issued thereunder may be amended in any respect deemed by the Board or the Committee to be necessary in order to preserve compliance with Section 409A of the Code. In the case of any Award that, for purposes of Section 409A of the Code, was not earned and vested on December 31, 2004, that is treated as “deferred compensation” subject to Section 409A of the Code and is held by a Participant who is subject to United States income tax, notwithstanding any provision in an Award Agreement to the contrary, (i) in the case of any payment under the Award that is to be made upon a termination of employment or other service, (x) such termination of employment or other service will be deemed to occur upon the Participant’s “separation from service” with the Company (within the meaning of Treas. Reg. Section 1.409A-1(h)), and (y) if the Participant is deemed on the date of his or her “separation from service” to be a “specified employee” (within the meaning of Treas. Reg. Section 1.409A-1(i)), then with regard to any payment that is required to be delayed pursuant to Section 409A(a)(2)(B) of the Code, such payment shall not be made prior to the earlier of (A) the expiration of the six (6)-month period measured from the date of the Participant’s “separation from service,” or (B) the date of the Participant’s death (the “Delay Period”); and, upon the expiration of the Delay Period, all payments delayed pursuant hereto (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid to the Participant in a lump sum, and any remaining payments due under the Award shall be paid in accordance with the normal payment dates specified for them, and (ii) in the case of any payment under the Award that is to be made upon a Change of Control, for this purpose Change of Control shall mean a transaction or event that constitutes both a Change of Control (as defined in the Plan) and a “change in control event” (as defined in Treas. Reg. Section 1.409A-3(i)(5)) with respect to the Company. The Company shall not have any obligation to indemnify or otherwise protect any Participant from any obligation to pay any taxes pursuant to Section 409A of the Code.

ADDENDUM FOR FRENCH STOCK OPTIONS

The following additional provisions constitute the 2002 French Stock Option Addendum (the "French Addendum").

A. *Purpose of the French Addendum*

The Committee has prescribed these additional provisions to the Program to permit French Participants to be granted French Options under the Program and only modify the Program as it relates to French Options granted under the Program to French Participants. These provisions apply to French Participants notwithstanding any other provisions of the Program, and do not apply to or modify the Program in respect of any other Participants.

The Board has adopted these additional provisions in accordance with Article II, Paragraph A of the Program.

B. *Definitions*

1. When used in this French Addendum, the following terms shall have the meanings set forth below:

"Award" (or "stock option") shall mean a French Option granted under the terms of the French Addendum and the Program.

"Cause" shall mean:

a. conviction of the French Participant of a felony involving moral turpitude or dishonesty;

b. the French Participant, in carrying out his or her duties for the Company, has been guilty of (1) gross neglect or (2) wilful misconduct; provided, however, that any act or failure to act by the French Participant shall not constitute Cause for this purpose if such act or failure to act was committed, or omitted, by the French Participant in good faith and in a manner reasonably believed to be in the overall best interests of the Company. The determination of whether the French Participant acted in good faith and that he or she reasonably believed his or her action to be in the Company's overall best interest will be in the reasonable judgment of the General Counsel of the Company, or, if the General Counsel shall have an actual or potential conflict of interest, the Committee; or

c. the French Participant's continued wilful refusal to obey any appropriate policy or requirement duly adopted by the Company and the continuance of such refusal after receipt of notice.

"Company" shall mean XL Group plc, an Irish company.

"French Option" shall mean a right to acquire stock granted under this French Addendum.

"French Participant" shall mean an employee of a Group Company to whom a subsisting French Option has been granted under this French Addendum, and any reference to "Participant" in the other provisions of this Program shall be construed as if it were a reference to "French Participant".

"Group Company" shall mean XL Group plc, an Irish Company, or any other entity in which XL Group plc owns 20% or more of the ordinary voting power or equity.

"Market Value" shall mean on any day the market value of a share as derived from the closing price of the Company's Common Stock on the composite tape of the New York Stock Exchange, and any reference to "Fair Market Value" in the other provisions of the Program shall be construed as though it were a reference to "Market Value" for the purposes of grants under this French Addendum.

"Trading Day" shall mean any day that the New York Stock Exchange is open for business.

2. The following definitions in Article I Paragraph B of the Program shall not apply to this French Addendum:

“Incentive Stock Option”

“Nonstatutory Stock Option”

“Performance Goal”

“Performance Period”

“Performance Shares”

“Performance Unit”

“Restricted Stock”

“Restricted Stock Unit”

“Stock Appreciation Rights” or “SARs”

C. *Provisions relating to performance shares, restricted stock, restricted stock units, performance unit awards and performance awards*

Articles III, IV, VI, VII, and VIII of the Program shall not apply to French Options.

D. *Participation*

1. French Options may be granted to any employee including “PDG” and managers “mandataires sociaux”.

2. No French Options may be granted to consultants who do not have a work contract with the Company.

3. No French Options may be granted to an Administrator or member of the Conseil de Surveillance, who does not have a work contract with the Company.

4. No French Options may be granted to any employee who, at the date of grant, holds shares representing 10% or more of the issued share capital of XL Capital Ltd.

E. *Price*

1. The option price per share of French Options shall not be less than:

A) for French Options relating to newly issued shares of Common Stock, the higher of:

i) 100 percent of the Market Value of a share of Common Stock on the date of grant; and

ii) 80 per cent of the average of the middle market quotations for a share of Common Stock derived from the composite tape of the New York Stock Exchange for the 20 consecutive Trading Days preceding the date of grant of such option.

B) for French Options relating to shares of Common Stock purchased by the Company, the higher of:

i) 80 per cent of the average purchase price of a share of Common Stock purchased by the Company; and

ii) 80 per cent of the average middle market quotations for a share of Common Stock derived from the composite tape of the New York Stock Exchange for the 20 consecutive Trading Days preceding the date of grant of such option.

2. The option price of a French Option shall be determined and fixed at the date of grant and may be adjusted only upon the occurrence of any of the events specified under the French Code of Commerce (section L. 225-181) in accordance with French law.

F. *Date of grant*

No French Option may be granted:

1. during the 20 consecutive Trading Days after the payment of a dividend;

2. during the 20 consecutive Trading Days after an increase of capital reserved to the shareholders;

3. during the 10 consecutive Trading Days preceding the date of publication of the consolidated accounts or any annual financial statements of the Company;

4. during the 10 consecutive Trading Days following the date of publication of the consolidated accounts or any annual financial statements of the Company;

5. during the period starting on any date on which the corporate management of the Company is aware of unpublished price-sensitive information and ending 10 Trading Days after the publication of such information;

G. *Exercise following death of French Participant*

The heirs of a deceased French Participant may exercise the French Option during the period of six months following the date of death. The French Option may not be assigned or transferred in any other circumstances, and any purported transfer, assignment, or charge shall cause the French Option to lapse forthwith.

H. *Disposal of shares*

Any disposal of Common Stock by a French Participant less than four years after the date of grant, and regardless of whether he has left employment with the Company, shall be accompanied by a notice of disposal sent by the French Participant to his employing company or former employing company within one week of the disposal.

I. *Lapse of French Options*

French Options granted under this French Addendum shall lapse upon the first of the following events to occur:

1. the tenth anniversary of the date of grant of the French Option;

2. the third anniversary of the Retirement or Disability of the French Participant;

3. six months following the death of the French Participant;

4. unless otherwise provided in an Employment Agreement between the French Participant and the Company, the third anniversary of the termination of the French Participant’s employment by the Company not for Cause within two years following a Change of Control (the “Post-Change Period”);

5. ninety days following termination of the French Participant’s employment by the Company not for Cause outside a Post-Change Period;

6. the last date of employment of the French Participant if employment is terminated by the Company for Cause;

7. the French Participant being adjudicated bankrupt; or

8. thirty days after the last date of employment of the French Participant if employment terminates other than as set forth above in this paragraph.

J. *Exercise of French Options*

1. Article V, Paragraphs A.1, A.2, A.3 and A.6 of the Program shall not apply.

2. Subject to the time limits in Paragraph I above, the French Options shall become exercisable according to the vesting schedule detailed in the French Participant's stock option agreement; provided, however, that the option shall be immediately exercisable in full in the event of a Change of Control or upon termination of the French Participant's employment due to death or Disability.

3. The French Option may be exercisable in whole or in part by the French Participant giving written notice of exercise to the Company or the Program administrator designated from time to time by the Company stating the number of shares with respect to which the French Option is being exercised, in the form prescribed by the Company. Such exercise shall be effective upon receipt of such notice by the Company or Program administrator and payment in full of the option price.

4. When a French Option is exercised only in part, the balance shall remain exercisable on the same terms as originally applied to the whole French Option and the Company shall issue a new option certificate accordingly as soon as possible after the partial exercise.

5. The French Participant may exercise his French Option at any time after the French Option becomes exercisable in accordance with Subparagraph 2 of this Paragraph J and before the French Option lapses for any reason stated in Paragraph I of this French Addendum.

2002 ITALIAN STOCK OPTION ADDENDUM

The following additional provisions constitute the 2002 Italian Stock Option Addendum (the "Italian Addendum").

A. *Purpose of the Italian Addendum*

The Committee has prescribed these additional provisions to the Program to permit Italian Participants to be granted Italian Options under the Program and only modify the Program as it relates to Italian Options granted under the Program to Italian Participants. These provisions apply to Italian Participants notwithstanding any other provisions of the Program, and do not apply to or modify the Program in respect of any other Participants.

The Board has adopted these additional provisions in accordance with Article II, Paragraph A of the Program.

B. *Definitions*

1. When used in this Italian Addendum, the following terms shall have the meanings set forth below:

"Award" shall mean an Italian Option granted under the terms of the Italian Addendum and the Program.

"Cause" shall mean:

a. conviction of the Italian Participant of a felony involving moral turpitude or dishonesty;

b. the Italian Participant, in carrying out his or her duties for the Company, has been guilty of (1) gross neglect or (2) wilful misconduct; provided, however, that any act or failure to act by the Italian Participant shall not constitute Cause for this purpose if such act or failure to act was committed, or omitted, by the Italian Participant in good faith and in a manner reasonably believed to be in the overall best interests of the Company. The determination of whether the Italian Participant acted in good faith and that he or she reasonably believed his or her action to be in the Company's overall best interest will be in the reasonable judgment of the General Counsel of the Company, or, if the General Counsel shall have an actual or potential conflict of interest, the Committee; or

c. the Italian Participant's continued wilful refusal to obey any appropriate policy or requirement duly adopted by the Company and the continuance of such refusal after receipt of notice.

"Date of Offer" shall mean the date of the meeting during which the Committee resolves to grant Italian Options pursuant to Article II, Paragraph B of the Program.

"Fair Market Value" shall mean on any day the market value of a share as derived from the closing price of the Company's Common Stock on the composite tape of the New York Stock Exchange.

"Italian Option" shall mean a right to acquire stock granted under this Italian Addendum.

"Italian Participant" shall mean an Italian resident employee of the Company to whom a subsisting Italian Option has been granted under this Italian Addendum, and any reference to "Participant" in the other provisions of this Program shall be construed as if it were a reference to "Italian Participant".

2. The following definitions in Article I Paragraph B of the Program shall not apply to this Italian Addendum:

"Incentive Stock Option"

"Nonstatutory Stock Option"

"Performance Goal"

"Performance Period"

“Performance Shares”

“Performance Unit”

“Restricted Stock”

“Restricted Stock Units”

“Stock Appreciation Rights” or “SARs”

C. *Provisions relating to performance shares, restricted stock, restricted stock units performance unit awards and performance awards*

Articles III, IV, VI, VII, and VIII of the Program shall not apply to Italian Options.

D. *Participation*

1. Italian Options may be granted to any Italian resident employee of the Company save for the exceptions listed in sub-paragraph 2 and 3 of this paragraph D.

2. No Italian Options may be granted to any person who is not an employee of the Company.

3. No Italian Options may be granted to any employee who, at the date of grant, holds either:

shares representing 10% or more of the issued share capital of XL Capital Ltd; or,

10% or more of the voting rights exercisable in the ordinary general shareholders’ meeting.

E. *Price*

1. The option price per share of Italian Options shall be:

a. for Italian Options relating to newly issued shares of Common Stock, not less than 100 per cent of the Fair Market Value of a share of Common Stock on the date of grant; and

b. for Italian Options relating to shares of Common Stock purchased by the Company, not less than the nominal value of a Share

provided that such option price shall not be less than the average of the middle market quotations for a share of Common Stock derived from the composite tape of the New York Stock Exchange for the period commencing on the same date as the Date of Offer in the previous calendar month (or in the event that such date does not exist, the last day of that preceding calendar month) and ending on the Date of Offer of such Italian Option.

F. *Exercise following death of Italian Participant*

Italian Options may be assigned or otherwise transferred only in the following circumstances:

1. by will or the laws of descent and distribution; or

2. by valid beneficiary designation taking effect at death made in accordance with procedures established by the Committee.

G. *Lapse of Italian Options*

Italian Options granted under this Italian Addendum shall lapse upon the first of the following events to occur:

1. the tenth anniversary of the date of grant of the Italian Option;

2. the third anniversary of the Retirement or Disability of the Italian Participant;

3. six months following the death of the Italian Participant;

4. unless otherwise provided in an Employment Agreement between the Italian Participant and the Company, the third anniversary of the termination of the Italian Participant’s employment by the Company not for Cause within two years following a Change of Control (the “Post-Change Period”);

5. ninety days following termination of the Italian Participant’s employment by the Company not for Cause outside a Post-Change Period;

6. the last date of employment of the Italian Participant if employment is terminated by the Company for Cause;

7. the Italian Participant being adjudicated bankrupt; or

8. thirty days after the last date of employment of the Italian Participant if employment terminates other than as set forth above in this paragraph.

H. *Exercise of Italian Options*

1. Article V, Paragraphs A.1, A.2, A.3 and A.6 of the Program shall not apply.

2. Subject to the time limits in Paragraph G above, the Italian Options shall become exercisable according to the vesting schedule detailed in the Italian Participant’s stock option agreement; provided, however, that the option shall be immediately exercisable in full in the event of a Change of Control or upon termination of the Italian Participant’s employment due to death or Disability.

3. The Italian Option maybe exercisable in whole or in part by the Italian Participant giving written notice of exercise to the Company or the Program administrator designated from time to time by the Company stating the number of shares with respect to which the Italian Option is being exercised, in the form prescribed by the Company. Such exercise shall be effective upon receipt of such notice by the Company or Program administrator and payment in full to the Company of the option price.

4. When an Italian Option is exercised only in part, the balance shall remain exercisable on the same terms as originally applied to the whole Italian Option and the Company shall issue a new option certificate accordingly as soon as possible after the partial exercise.

5. The Italian Participant may exercise his Italian Option at any time after the Italian Option becomes exercisable in accordance with Subparagraph 2 of this Paragraph H and before the Italian Option lapses for any reason stated in Paragraph G of this Italian Addendum.

ADDITIONAL PROVISIONS FOR UK PARTICIPANTS

The following additional provisions constitute the 2002 UK Approved Stock Option Appendix (the "UK Subplan") for UK Participants.

A. *Purpose of the UK Subplan*

The Committee has prescribed these additional provisions to the Program to permit UK Participants to be granted Approved Options under the Program. These provisions are to be read as a continuation of the Program and only modify the Program as it relates to Approved Options granted under the Program to UK Participants. These provisions do not apply to or modify the Program in respect of any other Participants.

The Board has adopted these additional provisions in accordance with Article II, Paragraph A of the Program.

In the event of any conflict between the terms of the Program and the UK Subplan, the terms of the UK Subplan will take precedence insofar as Approved Options granted to UK Eligible Employees are concerned.

B. *Definitions*

1. When used in this UK Subplan, the following additional terms shall have the meanings set forth below:

"Approved Option" shall mean a right to acquire Common Stock granted under this UK Subplan to a UK Participant while this UK Subplan is approved by the UK Inland Revenue under the Taxes Act.

"Associated Company" in relation to the Company shall have the meaning given by s416 of the Taxes Act.

"Cause" shall mean:

a. conviction of the UK Participant of a felony involving moral turpitude or dishonesty;

b. the UK Participant, in carrying out his or her duties for the Company, has been guilty of (1) gross neglect or (2) willful misconduct; provided, however, that any act or failure to act by the UK Participant shall not constitute Cause for this purpose if such act or failure to act was committed, or omitted, by the UK Participant in good faith and in a manner reasonably believed to be in the overall best interests of the Company. The determination of whether the UK Participant acted in good faith and that he or she reasonably believed his or her action to be in the Company's overall best interest will be in the reasonable judgment of the General Counsel of the Company, or, if the General Counsel shall have an actual or potential conflict of interest, the Committee; or

c. the UK Participant's continued wilful refusal to obey any appropriate policy or requirement duly adopted by the Company and the continuance of such refusal after receipt of notice.

"Control" shall have the meaning given by section 840 of the Taxes Act.

"Eligible Employee" shall mean:

a. any full-time director employed by a Participating Company and required to devote not less than 25 hours per week to his duties (excluding meal breaks); or

b. any other employee of a Participating Company

provided that the director or employee is not precluded by paragraph 8 of Schedule 9 (material interest in a close company) from participating in this UK Subplan.

"Exchange Rate" shall mean, on any day it falls to be calculated, the closing mid-point of the pound/dollar exchange rate quoted in the Financial Times on that day.

"Group Company" shall mean:

a. the Company; or

b. any company under the Control of the Company.

"Participating Company" shall mean any Group Company which is permitted by the Inland Revenue to participate in the Program and which is designated by the Committee as a Participating Company or a jointly owned company for which the prior consent of the Inland Revenue has been obtained provided that if any jointly owned company which has been nominated as a Participating Company ceases to satisfy the necessary Inland Revenue requirements (unless as a consequence of such cessation if becomes under the control of the Company) it shall forthwith cease to be a Participating Company.

"Schedule 9" shall mean Schedule 9 to the Taxes Act.

"Taxes Act' 'shall mean the Income and Corporation Taxes Act 1988.

"UK Subplan" shall mean the 2002 UK Approved Stock Option Appendix, as amended from time to time.

2. When used in this UK Subplan, the following terms in Article I, Provision B shall be modified as set forth below in relation to Approved Options only:

"Award" shall mean Approved Options granted under the terms of the Program and the UK Subplan.

"Common Stock" shall mean the Class A ordinary shares of the Company, par value of $0.01 per share, which satisfy the requirements of paragraph 10-14 of Schedule 9, and may be either stock previously authorized but unissued, or stock acquired by the Company.

"Company" shall mean XL Group plc, and Irish Company.

"Market Value" shall mean in respect of a share comprised in an Approved Option:

a. On any day, the market value of a share as derived from the mid-market price of the Company's Common Stock on the composite tape of the New York Stock Exchange; or

b. If the shares are not for the time being fully quoted on the New York Stock Exchange or the Daily Official List of the London Stock Exchange, the value of a share over which such Approved Option is granted as determined by the Committee as at the date of grant and having regard to the provisions of Part VIII of the Taxation of Chargeable Gains Act 1992 and agreed in advance with the Inland Revenue Shares Valuation Division. Any reference to "Fair Market Value" in the other provisions of the Program shall be construed as though it were a reference to "Market Value" for the purposes of grants under this UK Subplan.

"UK Participant" shall mean an Eligible Employee to whom a subsisting Approved Option has been granted under this UK Subplan, and any reference to "Participant" in the other provisions of this Program shall be construed as if it were a reference to "UK Participant".

3. Terms and expressions not defined in this Paragraph B have the same meaning as in section 185 and Schedule 9 of the Taxes Act, where appropriate.

4. References to any statutory provision are to that provision as amended or re-enacted from time to time.

5. All references in the Program to Stock Appreciation Rights and Incentive Stock Options shall not apply for the purposes of options granted under this UK Subplan.

C. *Administration*

1. Article II, Paragraph A of the Program shall be modified by the addition of the following words "No amendment to the UK Subplan or to this Program in so far as it applies to Approved Options shall become effective unless and until it is approved by the UK Inland Revenue. No Approved Options may be granted unless and until the UK Subplan is approved by the UK Inland Revenue."

2. The rights and obligations of an option holder under the terms of his contract of employment are not affected by his participation in this UK Subplan.

D. *Adjustments to share capital*

1. Article II, Paragraph D shall be amended by the deletion of the words "stock splits in the capitalization of the Company" and replaced by the following "any capitalization (other than a scrip issue), rights issue, consolidation, subdivision, reduction or other variation of the share capital of the Company".

2. Article II, Paragraph D shall be amended by the deletion of the second and third sentences beginning "Also, in instances..." and finishing "…proper effect to such an event".

3. Article II, Paragraph D of the Program shall be modified so that after the words "outstanding stock options shall be similarly adjusted", the following words are inserted:

a. the aggregate amount payable on the exercise of an Approved Option in full is not increased;

b. no adjustment shall be made without the prior approval of the Inland Revenue; and

c. following the adjustment the shares of Common Stock continue to satisfy the conditions specified in paragraph 10-14 inclusive of Schedule 9."

E. *Provisions relating to performance shares, restricted stock, restricted stock units, performance unit awards and performance awards*

Articles II Paragraph F, III, IV, VI, VII, VIII, and IX Paragraph D.4 of the Program shall not apply to Approved Options.

F. *Grant of Approved Options*

1. Approved Options granted to Eligible Employees chosen to participate may be granted by deed. A single deed of grant may be executed in favor of any number of Eligible Employees.

2. The first sentence of Article V, Paragraph A.1 shall be deleted and replaced with the following words;

"All Approved Options granted to UK Participants under this UK Subplan shall be evidenced by option certificates stating:

a. the date of grant of the Approved Option;

b. the number and class of shares over which the Approved Option is granted;

c. the option price payable for each share;

d. any condition as to exercise imposed in accordance with Paragraph F.3 below."

3. The exercise of an Approved Option may be conditional upon the satisfaction of objective corporate performance condition(s) imposed by the Committee at the date of grant. Any such performance conditions shall be deemed waived in the event of a Change of Control, or termination of employment by reason of death or Disability.

G. *Price*

Article V, Paragraph A.1 shall be modified by the addition of the following words;

“The option price per share of Approved Options shall not be less than 100 per cent of the Market Value of a share of Common Stock on the date of grant.”

H. *Period*

Article V, Paragraph A.2 shall be modified so that after the words “an ISO” the words “or an Approved Option” shall be inserted.

I. *Time of Exercise*

Article V, Paragraph A.3 shall be deleted and replaced with the following words;

“Time of Exercise: Subject to the time limit in Article V, Paragraph A.2, one-third of the Approved Options shall become exercisable on each of the first three anniversaries of the date of grant; provided, however, that the option shall be immediately exercisable in full in the event of a Change of Control or upon termination of the UK Participant’s employment due to his or her death or Disability.

J. *Payment*

Article V, Paragraphs A.5.b and A.5.c shall be deleted and replaced with a new paragraph A.5.b as follows;

“by arrangements with the Company, which arrangements shall have been approved in advance by the UK Inland Revenue.’

K. *Limit on value of Approved Options held*

The following new paragraph shall be inserted after Article V, Paragraph A.6;

“Special Rule for Approved Options; notwithstanding any other provision of the Program, the aggregate Market Value of the shares of Common Stock, determined at the relevant grant dates (converted to pounds sterling at the Exchange Rate on the relevant dates of grant), which the UK Participant may acquire on the exercise in full of all unexercised Approved Options then held by him under this UK Subplan and any other Inland Revenue approved discretionary share option plan adopted by the Company and any Associated Company, shall not exceed GB£30,000 or such other amount as shall from time to time be specified in paragraph 28 of Schedule 9.”

L. *Lapse of Approved Options*

Article V, Paragraph A.8 shall be replaced by the following new paragraph;

1. Approved Options granted under this UK Subplan shall lapse upon the first of the following events to occur:

a. the tenth anniversary of the date of grant of the Approved Option;

b. the third anniversary of the Retirement or Disability of the UK Participant;

c. the first anniversary of the death of the UK Participant;

d. unless otherwise provided in an Employment Agreement between the UK Participant and the Company, the third anniversary of the termination of the UK Participant’s employment by the Company not for Cause within two years following a Change of Control (the “Post-Change Period”);

e. ninety days following termination of the UK Participant's employment by the Company not for Cause outside a Post-Change Period;

f. the last date of employment of the UK Participant if employment is terminated by the Company for Cause;

g. the UK Participant being adjudicated bankrupt; or

h. thirty days after the last date of employment of the UK Participant if employment terminates other than as set forth in this paragraph.

M. *Exercise of Approved Options*

1. No Approved Option may be exercised by an individual at any time when he is precluded by paragraph 8 of Schedule 9 (material interest in a close company within the preceding 12 months) from participating in this UK Subplan.

2. No Approved Option may be exercised at any time when the shares which may be thereby acquired do not satisfy the conditions specified in paragraphs 10 - 14 of Schedule 9.

3. The Approved Option maybe exercisable in whole or in part by the UK Participant giving notice of exercise the Company or the Program administrator designated from time to time by the Company stating the number of shares with respect to which the Approved Option is being exercised, in the form prescribed by the Company. Such exercise shall be effective upon receipt of such notice by the Company or Program administrator and payment in full to the Company of the option price.

4. Shares of Common Stock shall be allotted and issued pursuant to a notice of exercise within 30 days of the date of exercise and a definitive share certificate issued to the option holder in respect thereof. Save for any rights determined by reference to a date preceding the date of allotment, such shares of Common Stock shall rank pari passu with the other shares of the same class in issue at the date of allotment.

5. When an Approved Option is exercised only in part, the balance shall remain exercisable on the same terms as originally applied to the whole Approved Option and the Company shall issue a new option certificate accordingly as soon as possible after the partial exercise.

6. The Approved Option maybe exercised by the personal representatives of a deceased UK Participant during the period of one year following the date of death. The Approved Option may not be assigned or transferred in any other circumstances, and any purported transfer, assignment, or charge shall cause the Approved Option to lapse forthwith.

7. The UK Participant may exercise his Approved Option at any time after the Approved Option becomes exercisable in accordance with Paragraph I above and before the Approved Option lapses for any reason stated in Paragraph L of this UK Subplan.

N. *Effective dates*

In relation to Approved Options, Article VIII Paragraph E shall be modified so that after the words "shareholder approval" the words "and the approval of the UK Inland Revenue to the UK Subplan" shall be inserted.

O. *Exchange of Approved Options on a takeover*

1. If any company ("the Acquiring Company") obtains Control of the Company within the circumstances specified in paragraph 15(1) of Schedule 9 to the Taxes Act, any UK Participant may, by agreement with the Acquiring Company at any time within the period specified in paragraph 15(2) of that Schedule 9, release his Approved Option ("the Old Option") in consideration of the grant to him of a new approved option ("the New Option") which is equivalent to the Old Option (by virtue of satisfying the requirements of paragraph 15(3) of Schedule 9 of the Taxes Act) but relates to stock in a different company (whether the Acquiring Company itself or another company within its group).

2. Where any New Options are granted pursuant to Paragraph O.1 above they shall be regarded for the purposes of the subsequent application of the provisions of this UK Subplan as having been granted at the time when the corresponding Old Options were granted and, with effect from the date on which the New Options are granted:

a. save for the definitions of “Participating Company” and “Group Company” in Paragraph B of this UK Subplan, references to “the Company” (including the definition in Paragraph B of this Subplan) shall be construed as being references to the Acquiring Company or such other company to whose stock the New Options relate; and

b. references to “Common Stock” (including the definition in Paragraph B of this Subplan) shall be construed as being references to stock in the Acquiring Company or stock in such other company to which the New Options relate but references to Participating Company shall continue to be construed as if references to the Company were references to XL Capital Ltd.

Additional Provisions for Participants in the Republic of Ireland

The following amendments to the Plan shall apply insofar as it relates to awards made to Participants in the Republic of Ireland.

1 Clause III C – Performance Shares & Termination of Employment

Clause III part C shall be deleted and replaced with the following:

In the event of a Participant's Termination of Employment prior to satisfaction of conditions related to outstanding Performance Share Awards for reasons other than discharge or resignation, the Participant (or the Participant's legal personal representative, in the event of his death), in the sole discretion of the Committee, may be entitled to receive from Performance Shares held by the Corporation a pro rata number of shares with respect to that Performance Share Award, or such other portion of the Award, if any, as the Committee shall determine. In the event of Termination of Employment due to resignation or discharge, the Award will be cancelled, and the Participant shall not be entitled to any further consideration with respect to the forfeited Performance Shares, subject to the discretion of the Committee to release restrictions on all or any part of an Award.

2 Clause IV D – Restricted Stock & Termination of Employment

Clause IV part D shall be deleted and replaced with the following:

In the event of a Participant's Termination of Employment prior to satisfaction of conditions related to outstanding Restricted Stock Awards for reasons other than discharge or resignation, the Participant (or the Participant's legal personal representative, in the event of his death), in the sole discretion of the Committee, may be entitled to receive from Restricted Stock shares held by the Corporation a pro rata number of shares with respect to that Restricted Stock Award, or such other portion of the Restricted Stock Award, if any, as the Committee shall determine. In the event of Termination of Employment due to resignation or discharge, all Restricted Stock shares held by the Company shall be forfeited, and the Participant shall not be entitled to any further consideration with respect to the forfeited Restricted Stock shares, subject to the discretion of the Committee to release of restrictions on all or any part of an Award, or unless otherwise stated in the Restricted Stock agreement.

3 Clause VI H – Performance Unit Awards & Termination of Employment

Clause VI part H shall be deleted and replaced with the following:

In the event of a Participant's Termination of Employment prior to the satisfaction of conditions related to outstanding Performance Unit Awards for reasons other than discharge or resignation, the Participant (or the Participant's legal personal representative, in the event of his death), in the sole discretion of the Committee, may be entitled to receive a pro-rata distribution of outstanding Performance Unit Awards. In the event of Termination of Employment due to resignation or discharge, all Awards will be cancelled, and the Participant shall not be entitled to any further consideration with respect to the forfeited Performance Units, subject to the discretion of the Committee.

4 Clause VIII D – Restricted Stock Units & Termination of Employment

Clause VIII part D shall be deleted and replaced with the following:

In the event of a Participant's Termination of Employment prior to satisfaction of conditions related to an outstanding Restricted Stock Unit Award for reasons other than discharge or resignation, the Participant (or the Participant's legal personal representative, in the event of his death), in the sole discretion of the Committee, may be entitled to receive from the Restricted Stock Unit Award a pro rata number of shares with respect to the Restricted Stock Unit Award, or such other portion of the Restricted Stock Unit Award, if any, as the Committee shall determine. In the event of Termination of Employment due to resignation or discharge, all Restricted Stock Units held by the Participant shall be forfeited, and the Participant shall not be entitled to any further consideration with respect to the forfeited Restricted Stock Units, subject to the discretion of the Committee to release restrictions and deliver shares in respect of all or any part of an Award, or unless otherwise stated in the Restricted Stock Unit Award Agreement.

5 Clause IX D Miscellaneous Provisions

Paragraphs 1 and 2 of Clause IX part D shall be deleted and replaced with the following:

5.1 Employment Rights

1. *No Right to Continue Employment:* Subject to the relevant provisions of local employment law governing the employment of a Participant, nothing in the Program or in any Award confers upon any Participant the right to continue in the employ of the Company or interferes with or restricts in any way any rights that the Company may have to discharge any Participant at any time for any reason whatsoever, with or without cause. Awards made under the Plan, and any other awards the Company may grant in the future to a Participant, even if such awards are made repeatedly or regularly, and regardless of their amount, (a) are wholly discretionary, are not a term or condition of employment and do not form part of a contract of employment, or any other working arrangement, between the Participant and the Company or any Subsidiary, as applicable, (b) do not create any contractual entitlement to receive future awards or to continued employment, and (c) do not form part of salary or remuneration for purposes of determining pension payments or any other purposes, including, without limitation, termination indemnities, severance, resignation, redundancy, bonuses, long-term service awards, pension or retirement benefits, or similar payments, except as otherwise required by applicable law.

5.2 Non-Transferability

2. *Non-Transferability:* Except as otherwise determined by the Committee and set forth in the applicable Award agreement, prior to being earned under Articles III, IV, or VI, being exercised under Article V, or having shares distributed under Article VIII, no right or interest of any Participant in any Award under the Program shall be (a) assignable or transferable, except by will or the laws of descent and distribution, or (b) liable for, or subject to, any lien, obligation or liability, except to the extent that Non-Qualified Stock Options may be pledged as security in a margin account for their exercise.

5.3 Designation

Paragraph 3 shall be deleted and the subsequent paragraphs 4 to 9 shall be renumbered accordingly.

Exhibit 10.2

XL GROUP PLC
DIRECTORS STOCK & OPTION PLAN

(AS AMENDED AND RESTATED AS OF APRIL 30, 2010)

1. PURPOSES

The purposes of the Directors Stock & Option Plan are to advance the interests of XL Group plc and its Shareholders by providing a means to attract, retain, and motivate Directors of the Company upon whose judgment, initiative and efforts the continued success, growth and development of the Company is dependent.

2. DEFINITIONS

For purposes of the Plan, the following terms shall be defined as set forth below:

(a) "Board" means the Board of Directors of the Company.

(b) "Code" means the Internal Revenue Code of 1986, as amended from time to time. References to any provision of the Code shall be deemed to include successor provisions thereto and regulations there under.

(c) "Company" means XL Group plc, an Irish company, or any successor corporation.

(d) "Director" means a non-employee member of the Board.

(e) "Fair Market Value" means, with respect to Shares on any day, the following:

(i) If the Shares are at the time listed or admitted to trading on any stock exchange, then the Fair Market Value shall be the closing selling price per share of Shares on the date in question on the stock exchange which is the primary market for the Shares, as such price is officially quoted on such exchange. If there is no reported sale of Shares on such exchange on such date, then the Fair Market Value shall be the closing selling price on the exchange on the last preceding date for which such quotation exists; and

(ii) If the Shares are not at the time listed or admitted to trading on any stock exchange but are traded in the over-the-counter market, the Fair Market Value shall be the closing selling price per share of Shares on the date in question, as such price is reported by the National Association of Securities Dealers through the NASDAQ National Market System or any successor system. If there is no reported closing selling price for Shares on such date, then the closing selling price on the last preceding date for which such quotation exists shall be determinative of Fair Market Value.

(f) "Fiscal Year" means the calendar year.

(g) "Option" means a right, granted under Section 5 of the Plan, to purchase Shares.

(h) "Participant" means a Director who has been granted an Option, Restricted Stock Award,

Restricted Stock Unit Award or who has elected to defer compensation under the Plan.

(i) “Plan” means this Directors Stock & Option Plan.

(j) “Restricted Stock Award” means an award granted under Section 5(g) of the Plan.

(k) “Restricted Stock Unit Award” means an award granted under Section 5(h) of the Plan.

(l) “Shares” means ordinary shares of the Company.

3. ADMINISTRATION

The Plan shall be administered by the Board. Subject to the express provisions of the Plan, the Board shall have full and exclusive authority to interpret the Plan, to make all determinations with respect to awards to be granted under the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan, and to make all other determinations necessary or advisable in the implementation and administration of the Plan. The Board’s interpretation and construction of the Plan shall be conclusive and binding on all persons.

4. SHARES SUBJECT TO THE PLAN

(a) Subject to adjustment as provided in Section 5(j), the total number of Shares reserved for issuance under the Plan shall be 794,702. If any Shares subject to an Option, Restricted Stock Award or Restricted Stock Unit Award hereunder are forfeited, cancelled or surrendered, any Shares counted against the number of Shares reserved and available under the Plan with respect to such Option, Restricted Stock Award or Restricted Stock Unit Award shall, to the extent of any such forfeiture, cancellation or surrender, again be available for issuance as such an award under the Plan.

(b) Any Shares issued hereunder may consist, in whole or in part, of authorized and unissued Shares including Shares acquired by purchase in the open market or in private transactions.

5. DIRECTOR’S AWARDS

(a) Initial Option Grant. Each Director who is first elected to the Board subsequent to March 7, 2003 shall be granted an Option to purchase 5,000 Shares (or such other number of Shares, as determined from time to time by the Board) on the date such Director is first elected to the Board and such Option shall have an exercise price per Share equal to 100% of the Fair Market Value per Share at the date of grant; provided, however, that such price shall be at least equal to the par value of a Share.

(b) Annual Option Grants. On the date of each annual meeting of Shareholders of the Company, beginning with the annual meeting for 2009, each Director in office immediately following the annual meeting shall be granted an Option to purchase such number of Shares as determined from time to time by the Board, with an exercise price per Share equal to 100% of the Fair Market Value per Share at the date of grant; provided, however, that such price per share shall be at least equal to the par value of a Share.

(c) Exercisability. Each Option granted to a Director under Section 5(a) or (b) of this Plan shall be fully exercisable on the date of grant and shall expire on the tenth anniversary of the date of grant, and exercisability of such an Option shall not be dependent upon the Director’s continuing service on the Board.

(d) Time And Method Of Exercise. The exercise price of an Option shall be paid to the Company at the time of exercise in cash or through delivery of Shares owned by the Director for more than six months having an aggregate Fair Market Value on the date of exercise equal to the exercise price.

(e) Discretionary Options. Without limiting the operation of Section 5(a) or (b) hereof, the Board may also make discretionary Option grants to Directors hereunder. The Board may determine, in its discretion, the Directors to whom any such Options are to be granted, the number of Shares to be subject to each such Option and the other terms and conditions of such Options, consistent with the terms of the Plan. The exercise price per share of any Option shall not be less than 100% of the Fair Market Value of a Share on the date of grant, and the term of an Option shall not be longer than ten years.

(f) No Option Re-pricing. Except as provided in Section 5(j) hereof relating to certain anti-dilution adjustments, unless the approval of Shareholders of the Company is obtained, Options issued under the Plan shall not be amended to lower their exercise prices and they will not be exchanged for other stock options with lower exercise prices.

(g) Restricted Stock Awards. The Board may grant Restricted Stock Awards to Directors on such terms and conditions, consistent with the provisions of this Plan, as determined by the Board. Restricted Stock Awards shall be subject to restrictions on transferability, forfeiture conditions and other restrictions, if any, as the Board may impose, which restrictions and forfeiture conditions may lapse under such circumstances as the Board may determine. A Director who is granted a Restricted Stock Award shall have all of the rights of a Shareholder prior to vesting of the Restricted Stock Award, including, without limitation, the right to vote the Restricted Stock and the right to receive dividends thereon.

(h) Restricted Stock Unit Awards. The Board may grant Restricted Stock Unit Awards to Directors on such terms and conditions, consistent with the provisions of this Plan, as determined by the Board. Restricted Stock Unit Awards will provide for the delivery of a number of Shares equal to the number of Restricted Stock Units at the time and subject to the terms and conditions set forth by the Board. Delivery of Shares pursuant to the Restricted Stock Unit Awards will occur upon expiration of the deferral period specified by the Board. In addition, Restricted Stock Unit Awards shall be subject to such restrictions, including forfeiture conditions, as the Board may impose.

(i) Transferability. The Options, Restricted Stock Awards and Restricted Stock Unit Awards granted under the Plan may be assigned or otherwise transferred only: (i) by will or the laws of descent and distribution; (ii) by valid beneficiary designation taking effect at death made in accordance with procedures established by the Board; or (iii) solely in the case of Options, by the Director to members of his or her “immediate family”, to a trust established for the exclusive benefit of solely one or more members of the Director’s “immediate family” and/or the Director, or to a partnership or other entity pursuant to which the only owners are one or more members of the Director’s “immediate family” and/or the Director. Any Option held by the transferee will continue to be subject to the same terms and conditions that were applicable to the Option immediately prior to the transfer, except that the Option will be transferable by the transferee only by will or the laws of descent and distribution. For purposes hereof, “immediate family” means the Director’s children, stepchildren, grandchildren, parents, stepparents, grandparents, spouse, siblings (including half brothers and sisters), in-laws, and relationships arising because of legal adoption.

(j) Adjustments. In the event that subsequent to the Effective Date any alteration or re-organization whatsoever taking place in the capital structure of the Company whether by way of capitalization

of profits or reserves, capital distribution, rights issue, consolidation or sub-division of Shares, the conversion of one class of share to another or reduction of capital or otherwise, affects the Shares such that they are increased or decreased or changed into or exchanged for a different number or kind of Shares or other securities of the Company or of another corporation, then in order to maintain the proportionate interest of the Directors and preserve the value of the awards made hereunder (i) there shall automatically be substituted for each Share subject to an unexercised Option, each Restricted Stock Award, each Restricted Stock Unit Award, and each Share to be issued on a formula basis under this Section 5 subsequent to such event, the number and kind of Shares or other securities into which each outstanding Share shall be changed or for which each such Share shall be exchanged, (ii) the exercise price of outstanding Options shall be increased or decreased proportionately so that the aggregate purchase price for the Shares subject to any unexercised Option shall remain the same as immediately prior to such event, and (iii) the number and kind of Shares available for issuance under the Plan shall be equitably adjusted in order to take into account such transaction or other change. Notwithstanding any provision hereof to the contrary, no adjustment may be made that reduces the amount to be paid up per share to less than the par value of the share.

(k) Nonqualified Options. All Options granted under the Plan shall be nonqualified options, not entitled to special tax treatment under Section 422 of the Code.

6. DIRECTOR’S FEES

Notwithstanding any provision of this Plan to the contrary, the provisions of Section 6(a) through (f) and Section 6(h) below will apply only with respect to deferrals of annual retainer fees earned for service as a Director prior to January 1, 2009. Deferrals under such provisions may not be made with respect to annual retainer fees attributable to services performed after December 31, 2008.

(a) Each Director may make an irrevocable election on or before the December 31 immediately preceding the beginning of a Fiscal Year of the Company, by written notice to the Company, to defer payment of all or a designated portion (in increments of $5,000) of the cash compensation otherwise payable as his or her annual retainer for service as a Director for the next Fiscal Year. Notwithstanding the foregoing, a Director who first becomes eligible to participate in the Plan may make an election under this Section 6(a) within 30 days of first becoming eligible to participate in the Plan in respect of annual retainer fees for services performed after the date of the election under this Section 6(a).

(b) Deferrals of compensation hereunder shall continue until the Director notifies the Company in writing, on or prior to the December 31 immediately preceding the commencement of any Fiscal Year, that he wishes his compensation for such Fiscal Year and all succeeding periods to be paid in cash on a current basis.

(c) All compensation which a Director elects to defer pursuant to this Section 6 shall be credited in the form of units to a bookkeeping account maintained by the Company in the name of the Director. Each such unit shall represent the right to receive one Share at the time determined pursuant to the terms of the Plan. In consideration for forgoing cash compensation, the number of units so credited will be equal to the number of Shares having an aggregate Fair Market Value (on the date the compensation would otherwise have been paid) equal to 100% of the amount by which the Director’s cash compensation was reduced pursuant to the deferral election. Notwithstanding any other provision of this Plan, in the case of any deferral election made prior to the date of approval of this Plan by the affirmative votes of the holders of a majority of voting securities of the Company, the crediting of Share units to the Director’s bookkeeping account shall be contingent on such

Shareholder approval. If such Shareholder approval is not obtained within one year from the Effective Date of this Plan, compensation deferred pursuant to a prior election hereunder will be paid to the Director in cash at the end of such year.

(d) As of each date on which a cash dividend is paid on Shares, there shall be credited to each account that number of units (including fractional units) determined by (i): multiplying the amount of such dividend (per Share) by the number of units in such account; and (ii) dividing the total so determined by the Fair Market Value of a Share on the date of payment of such cash dividend. The additions to a Director’s account pursuant to this Section 6(d) shall continue until the Director’s account is fully paid.

(e) The account of a Director shall be distributed (in the form of one Share for each Share unit) either (x) in a lump sum at the time of the Director’s “separation from service” (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Company or (y) in up to five annual installments commencing at the time of the Director’s “separation from service” with the Company, as elected by the Director. Each Director’s distribution election must be made in writing within 30 days after the Director first becomes eligible to participate in the Plan; provided, however, that, solely in the case of deferrals of compensation that were earned and vested on December 31, 2004 (together with amounts credited thereon under Section 6(d)), a Director may make a new distribution election with respect to the entire portion of such deferrals so long as such election is made at least one year in advance of the Director’s termination of service on the Board. In the case of an account distributed in installments, the amount of Shares distributed in each installment shall be equal to the number of Share units in the Director’s account subject to such installment distribution at the time of the distribution divided by the number of installments remaining to be paid. In the event a Director does not make an affirmative distribution election in accordance with this Section 6(e), the account of the Director shall be distributed in a lump sum at the time of the Director’s “separation from service.”

(f) The right of a Director to amounts described under this Section 6 (including Shares) shall not be subject to assignment or other disposition by him or her other than by will or the laws of descent and distribution. In the event that, notwithstanding this provision, a Director makes a prohibited disposition, the Company may disregard the same and discharge its obligation hereunder by making payment or delivery as though no such disposition had been made.

(g) Each Director may make an election in writing on or prior to each December 31 to receive the Director’s annual retainer fees payable in the following Fiscal Year in the form of Shares instead of cash. Any Shares elected shall be payable at the time cash retainer fees are otherwise payable, and the number of Shares distributed shall be equal to the amount of the annual retainer fee otherwise payable on such payment date divided by the Fair Market Value of a Share on such date. Notwithstanding the foregoing, a Director who first becomes eligible to participate in the Plan may make an election under this Section 6(g) within 30 days of first becoming eligible to participate in the Plan in respect of annual retainer fees for services performed after the date of the election under this Section 6(g).

(h) In the event that any dividend in Shares, recapitalization, Share split, reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, or share exchange, or other such change, affects the Shares such that they are increased or decreased or changed into or exchanged for a different number or kind of Shares, other securities of the Company or of another corporation or other consideration, then in order to maintain the proportionate interest of the Directors and preserve the value of the Directors’ Share units, there shall automatically be substituted for each Share unit a new unit representing the number and kind of Shares, other securities or other consideration into which each outstanding Share shall be changed. The

substituted units shall be subject to the same terms and conditions as the original Share units.

7. GENERAL PROVISIONS

(a) Compliance With Legal And Trading Requirements. The Plan shall be subject to all applicable laws, rules and regulations, including, but not limited to, U.S. federal and state laws, rules and regulations, and to such approvals by any regulatory or governmental agency as may be required. The Company, in its discretion, may postpone the issuance or delivery of Shares under the Plan until completion of such stock exchange or market system listing or registration or qualification of such Shares or other required action under any U.S. state or federal law, rule or regulation or under laws, rules or regulations of other jurisdictions as the Company may consider appropriate, and may require any Participant to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of Shares in compliance with applicable laws, rules and regulations. No provisions of the Plan shall be interpreted or construed to obligate the Company to register any Shares under U.S. federal or state law or under the laws of other jurisdictions.

(b) No Right To Continued Service. Neither the Plan nor any action taken there under shall be construed as giving any Director the right to be retained in the service of the Company or any of its subsidiaries or affiliates, nor shall it interfere in any way with the right of the Company or any of its subsidiaries or affiliates to terminate any Director's service at any time.

(c) Taxes. The Company is authorized to withhold from any Shares delivered under this Plan or on exercise of an Option any amounts of withholding and other taxes due in connection therewith, and to take such other action as the Company may deem advisable to enable the Company and a Participant to satisfy obligations for the payment of any withholding taxes and other tax obligations relating thereto. This authority shall include authority to withhold or receive Shares or other property and to make cash payments in respect thereof in satisfaction of a Participant's tax obligations.

(d) Amendment. The Board may amend, alter, suspend, discontinue, or terminate the Plan without the consent of Shareholders of the Company or Participants, except that any such amendment, alteration, suspension, discontinuation, or termination shall be subject to the approval of the Company's Shareholders if such Shareholder approval is required by any U.S. federal law or regulation or the rules of any stock exchange or automated quotation system on which the Shares may then be listed or quoted; provided, however, that, without the consent of an affected Participant, no amendment, alteration, suspension, discontinuation, or termination of the Plan may impair the rights or, in any other manner, adversely affect the rights of such Participant under any award theretofore granted to him or her or compensation previously deferred by him or her hereunder.

(e) Unfunded Status Of Awards. The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant pursuant to a Restricted Stock Unit Award or a deferral election, nothing contained in the Plan shall give any such Participant any rights that are greater than those of a general unsecured creditor of the Company; provided, however, that the Company may authorize the creation of trusts or make other arrangements to meet the Company's obligations under the Plan to deliver cash, Shares, or other property pursuant to any award, which trusts or other arrangements shall be consistent with the "unfunded" status of the Plan unless the Company otherwise determines with the consent of each affected Participant.

(f) Non-Exclusivity Of The Plan. Neither the adoption of the Plan by the Board nor its submission to the Shareholders of the Company for approval shall be construed as creating any limitations on the power of the Board to adopt such other compensation arrangements as it may deem desirable, including, without limitation, the granting of options on Shares and other awards otherwise than under the Plan, and such arrangements may be either applicable generally or only in specific cases.

(g) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan. Cash shall be paid in lieu of such fractional Shares.

(h) Governing Law. The validity, construction, and effect of the Plan shall be determined in accordance with the laws of the State of New York, without giving effect to principles of conflict of laws thereof.

(i) Effective Date; Plan Termination. The Plan as amended and restated became effective as of January 1, 2009 (the "Effective Date"), subject to approval by the Shareholders of the Company. The Plan shall terminate as to future awards on June 1, 2014 or, if earlier, at such time as no Shares remain available for issuance pursuant to Section 4, and the Company has no further obligations with respect to any award granted or compensation deferred under the Plan.

(j) Titles And Headings. The titles and headings of the Sections in the Plan are for convenience of reference only. In the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

(k) Section 409A. It is intended that deferrals of compensation that were earned and vested on December 31, 2004 (and amounts credited thereon under Section 6(d) of the Plan) (the "Grandfathered Plan Benefits") will satisfy the grandfather provisions applicable under Section 409A of the Code so that such Grandfathered Plan Benefits will not be subject to Section 409A of the Code. No amendment to this Plan made after October 3, 2004 will apply to the Grandfathered Plan Benefits unless the amendment specifically provides that it applies to them. As it applies to benefits that are not Grandfathered Plan Benefits, it is intended that the Plan, Options and other awards granted and amounts deferred hereunder will comply with Section 409A of the Code (and any regulations and guidelines issued there under) to the extent subject thereto, and the Plan and such Options, awards and deferral provisions shall be interpreted on a basis consistent with such intent. Without limiting the generality of the foregoing, no adjustment shall be made pursuant to Section 5(j) above that would cause any Option to be treated as deferred compensation pursuant to Section 409A of the Code. The Plan and any Award Agreements issued there under may be amended in any respect deemed by the Board or the Committee to be necessary in order to preserve compliance with Section 409A of the Code. No action or failure to act, pursuant to this Section 7(k) shall subject the Company to any claim, liability, or expense, and the Company shall not have any obligation to indemnify or otherwise protect any Director from the obligation to pay any taxes pursuant to Section 409A of the Code.

(l) Section 457A. Notwithstanding any provision of this Plan to the contrary, in the case of any Director subject to United States income tax, any amount deferred under Section 6 of the Plan, and any amount deferred under a restricted stock unit granted under the Plan, which in any such case constitutes "nonqualified deferred compensation" for purposes of Section 457A of the Code and is subject to Section 457A of the Code, shall be distributed to the Director no later than December 31, 2017.

XL GROUP plc
SUPPLEMENTAL DEFERRED COMPENSATION PLAN

XL Group plc (the "Company") adopted the XL Group plc Supplemental Deferred Compensation Plan (the "Plan"), effective as of January 1, 2000. Except as otherwise provided below, the Plan is hereby amended and restated effective January 1, 2007, to comply with Code Section 409A, as enacted by the American Jobs Creation Act of 2004 and applicable regulations thereunder; provided, however, that any provision required to be effective on and after January 1, 2005 in order for the Plan to comply with Code Section 409A shall become effective as of January 1, 2005 (or such later date as shall be permitted under applicable Code Section 409A transition rules).

The Plan is unfunded and maintained primarily for the purpose of providing deferred compensation to a select group of management or highly compensated employees, and is not intended to be qualified under Section 401(a) of the Internal Revenue Code.

ARTICLE I
DEFINITIONS

Each word used herein not defined below that begins with a capital letter and is defined in the Qualified Plan shall have the same definition as the definition given to that word in the Qualified Plan. Wherever used herein, the following terms shall have the meanings hereinafter set forth:

1.1 "**Account**" or "**Deferred Compensation Account**" means the separate account established under the Plan for each Participant, as described in Section 5.1.

1.2 "**Administrator**" means the Committee or such person or persons as may be appointed by the Committee to be responsible for those functions assigned to the Administrator under the Plan.

1.3 "**Affiliate**" means any entity that is a member of a "controlled group" of corporations with the Company under Code Section 414(b) or a trade or business under common control with the Company under Code Section 414(c); provided, however, that solely for purposes of determining whether a Termination of Employment has occurred, in applying Code Sections 1563(a)(1), (2) and (3) for purposes of Code Section 414(b), the language "at least 50 percent" will be used instead of "at least 80 percent" each place it appears, and in applying Treasury Regulation Section 1.414(c)-2 for purposes of Code Section 414(c), the language "at least 50 percent" will be used instead of "at least 80 percent" each place it appears. In addition, to the extent that the Administrator determines that legitimate business criteria exist to use a reduced ownership percentage to determine whether an entity is an Affiliate for purposes of determining whether a Termination of Employment has occurred, the Administrator may designate an entity that would meet the definition of "Affiliate" substituting 20 percent in place of 50 percent in the preceding sentence as an Affiliate in Appendix A hereto. Such designation shall be made by December 31, 2007 or, if later, at the time a 20 percent or more ownership interest in such entity is acquired.

1.4 “**Annual Bonus**” means any cash compensation to which a Participant becomes entitled under a written plan or arrangement of a Participating Employer providing for the calculation and payment of incentive compensation with respect to a Plan Year after the close of such Plan Year, determined prior to reduction for elective deferrals to this Plan or to any qualified retirement plan, and for premium conversion and flexible spending amounts under a cafeteria plan described in Code Section 125.

1.5 “**Base Salary**” means the salary to which a Participant becomes entitled from a Participating Employer during or with respect to a Plan Year, including commissions, but not including Annual Bonus or other incentive Compensation, determined prior to reduction for elective deferrals to this Plan or to any qualified retirement plan, and for premium conversion and flexible spending amounts under a cafeteria plan described in Code Section 125; provided, however, that Annual Salary shall not include expense reimbursements, severance, or the value of any benefits paid to or on behalf of the Executive under any fringe benefit, pension or insurance plan or program. Only Annual Salary which becomes payable while the Executive is a Participant shall be taken into account for purposes of the Plan.

1.6 “**Beneficiary**” means the person, persons or trust designated by a Participant as direct or contingent beneficiary in the manner prescribed by the Administrator. The Beneficiary of a Participant who has not effectively designated a beneficiary shall be the Participant’s estate.

1.7 “**Board of Directors**” means the Board of Directors of the Company.

1.8 “**Change in Control**” shall mean and shall be deemed to have occurred as of the date of the first to occur of the following events:

(a) any Person or Group acquires stock of the Company that, together with stock held by such Person or Group, constitutes more than 50% of the total Fair Market Value or total voting power of the stock of the Company, including but not limited to a transaction pursuant to i) a compromise or arrangement sanctioned by the Court under section 201 of the Companies Act 1963 of the Republic of Ireland or ii) section 204 of the Companies Act 1963 of the Republic of Ireland. However, if any Person or Group is considered to own more than 50% of the total Fair Market Value or total voting power of the stock of the Company, the acquisition of additional stock by the same Person or Group is not considered to cause a Change in Control of the Company. An increase in the percentage of stock owned by any Person or Group as a result of a transaction in which the Company acquires its stock in exchange for property will be treated as an acquisition of stock for purposes of this subsection. This subsection applies only when there is a transfer of stock of the Company (or issuance of stock of the Company) and stock in the Company remains outstanding after the transaction;

(b) any Person or Group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Group) ownership of stock of the Company possessing 30% or more of the total voting power of the stock of the Company;

(c) a majority of members of the Company's Board is replaced during any 12-month period by Directors whose appointment or election is not endorsed by a majority of the members of the Company's Board prior to the date of the appointment or election; or

(d) any Person or Group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such Person or Group) assets from the Company that have a total gross fair market value equal to or more than 40% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. However, no Change in Control shall be deemed to occur under this subsection (d) as a result of a transfer to:

(i) A shareholder of the Company (immediately before the asset transfer) in exchange for or with respect to its stock;

(ii) An entity, 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Company;

(iii) A Person or Group that owns, directly or indirectly, 50% or more of the total value or voting power of all the outstanding stock of the Company; or

(iv) An entity, at least 50% of the total value or voting power of which is owned, directly or indirectly, by a person described in clause (iii) above.

For these purposes, the term "Person" shall mean an individual, corporation, association, joint-stock company, business trust or other similar organization, partnership, limited liability company, joint venture, trust, unincorporated organization or government or agency, instrumentality or political subdivision thereof. The term "Group" shall have the meaning set forth in Rule 13d-5 of the Securities Exchange Commission ("SEC"), modified to the extent necessary to comply with Treasury Regulation Section 1.409A-3(i)(5), or any successor thereto in effect at the time a determination of whether a Change in Control has occurred is being made. If any one Person, or Persons acting as a Group, is considered to effectively control the Company as described in subsections (b) or (c) above, the acquisition of additional control by the same Person or Persons is not considered to cause a Change in Control.

1.9 "**Committee**" means the Compensation Committee, or such other committee of the Board or Management, which is authorized to administer the Plan and to perform the functions described in Article VII.

1.10 "**Company**" means XL Group plc.

1.11 "**Compensation**" means Base Salary and/or Annual Bonus, as applicable, determined prior to reduction for elective contributions to this Plan, the Qualified Plan or any other employee benefit plan of the Participating Employer.

1.12 “**Deferral Period**” means the period described in Section 3.3 of the Plan.

1.13 “**Disability**” means that the Participant (a) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months; (b) is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering employees of the Company; or (c) has been determined to be totally disabled by the Social Security Administration.

1.14 “**Effective Date**” means January 1, 2007. Any provision of this amendment and restatement required to be effective on and after January 1, 2005 in order for the Plan to comply with Code Section 409A shall become effective as of January 1, 2005 (or such later date up to January 1, 2007 as shall be permitted under applicable Code Section 409A transition rules).

1.15 “**Elective Deferral**” means the amount of Compensation a Participant elects to defer pursuant to Article III of the Plan.

1.16 “**Eligible Executive**” or “**Executive**” means (a) the Chairman of the Company and each other member of a select group of management or highly compensated employees of the Participating Employers who has been selected to be a Participant in the Plan by the Committee; and (b) for periods prior to January 1, 2008, employees of a Participating Employer who either (i) have Excess Compensation for the Plan Year, or (ii) have elected to make elective deferrals to the Qualified Plan that exceed the dollar limitation on pre-tax contributions set forth in Section 402(g) of the Code. Eligible Executives shall be selected from among a select group of management or highly compensated employees, and shall be citizens or residents of the United States.

1.17 “**Excess Compensation**” means the Participant’s Compensation payable during a Plan Year which exceeds the limitation on compensation applicable to qualified plans under Code Section 401(a)(17), as such limitation may be adjusted from time to time.

1.18 “**Hardship**” means an unforeseeable emergency that is caused by an event beyond the control of the Participant that would result in severe financial hardship to the Participant resulting from (a) a sudden and unexpected illness or accident of the Participant or the spouse or a dependent of the Participant (as defined in Code Section 152(a)), (b) a loss of the Participant’s property due to casualty (including the need to rebuild a home following damage to a home not otherwise covered by insurance, for example, not as a result of a natural disaster), or (c) such other extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, all as determined in the sole discretion of the Administrator. In addition, the need to pay for medical expenses, including non-refundable deductibles, as well as for the costs of prescription drug medication, or the need to pay for the funeral expenses of a spouse or a dependent may also constitute a Hardship event. The Administrator shall determine whether the circumstances presented by the Participant constitute an unanticipated emergency. Such circumstances and the Administrator’s determination will depend on the facts of each case,

but, in any case, payment may not be made to the extent that such hardship is or may be relieved as described in Sections 6.1.1 through 6.1.4 below.

1.19 "**Key Employee**" means a "key employee" as defined for purposes of Code Section 416(i), without regard to paragraph (5) thereof, of the Company or any Affiliate, subject to the following modifications. An employee is a Key Employee if, as of the date of determination, he or she is (a) one of the 50 (or, if less, the greater of three or 10% of all employees) highest-paid officers of the Company or any Affiliate having annual compensation greater than $135,000 (as adjusted under Code Section 415(d)); (b) a 5% owner of the Company or any Affiliate; or (c) a 1% owner of the Company or any Affiliate having annual compensation of more than $150,000. If an individual is a Key Employee at any time during the twelve month period ending on December 31 of a Plan Year, he or she shall be treated as a Key Employee for the 12-month period beginning on April 1 of the Plan Year following such December 31. For purposes of this Section 1.19, the term "compensation" will be defined in accordance with Treasury Regulation Section 1.415(c)-2(d)(2); provided, however, that compensation paid to or on behalf of an individual who is not a Participant and who is a non-resident alien of the U.S. will not be taken into account hereunder to the extent that the compensation is not includable in gross income under the Code and is not effectively connected to the conduct of a trade or business within the U.S. Whether an individual is a Key Employee will be determined in accordance with the requirements of Code Section 409A.

1.20 "**Matching Contribution**" means the amounts credited to a Participant's Account under Article IV of the Plan with respect to Elective Deferrals.

1.21 "**Participant**" means an Executive or former Executive who elects to participate in the Plan in accordance with the terms and conditions of the Plan or who has an Account in the Plan that has not been fully distributed.

1.22 "**Participating Employer**" means the Company, XL Capital Ltd, XL Financial Solutions Ltd, XL Insurance (Bermuda) Ltd, XL Re Ltd, XL Investment Management Ltd, XL Life Ltd, XL Services (Bermuda) Ltd, XL Re Latin America Ltd, XL Financial Assurance Ltd, and each other Affiliate that, with the approval of the Administrator, joins the Plan by executing a declaration of joinder..

1.23 "**Plan**" means XL Group plc Supplemental Deferred Compensation Plan, as set forth herein or as it may be amended or restated from time to time.

1.24 "**Plan Year**" means the calendar year.

1.25 "**Qualified Plan**" means the XL America, Inc. Employee Savings Plan, as from time to time amended.

1.26 "**Scheduled Distribution**" means a distribution from a Participant's Scheduled Distribution Sub-Account in accordance with Section 6.3.

1.27 “**Scheduled Distribution Sub-Accounts**” or “**Sub-Accounts**” means the separate bookkeeping accounts established by the Administrator under Section 5.1 to record the portion(s) of a Participant’s Account subject to separate Scheduled Distribution elections.

1.28 “**Termination of Employment**” means, with respect to an Executive, the severing of employment with the Company and any Affiliates, voluntarily or involuntarily, for any reason. A Termination of Employment will be deemed to have occurred if the facts and circumstances indicate that the Company and the Participant reasonably anticipate that no further services will be performed after a certain date or that the level of *bona fide* services the Participant will perform for the Company and its Affiliates after such date (whether as an employee or as an independent contractor) will permanently decrease to no more than 20% of the average level of *bona fide* services performed (whether as an employee or an independent contractor) over the immediately preceding 36-month period (or the full period of services to the employer if the Participant has been providing services to the Company and its Affiliates less than 36 months). A Participant will not be deemed to have incurred a Termination of Employment while he or she is on military leave, sick leave, or other *bona fide* leave of absence (such as temporary employment by the government) if the period of such leave does not exceed six months or such longer period as the Participant’s right to reemployment with the Company is provided either by statute or by contract. For this purpose, a leave of absence is *bona fide* only if there is a reasonable expectation that the Participant will return to employment at the conclusion of the leave. If the period of leave exceeds six months and the Participant’s right to reemployment is not provided either by statute or by contract, the Termination of Employment will be deemed to occur on the first date immediately following such six-month period. Whether an individual has incurred a Termination of Employment shall be determined in accordance with the provisions of Section 409A.

1.29 “**Valuation Date**” means the close of business of each business day, or such other valuation date or dates established by the Administrator.

ARTICLE II
PARTICIPATION

2.1 **Eligibility**. Each Executive may become a Participant upon the effective date of his or her designation as an Executive eligible for participation in the Plan by the Committee. For Plan Years prior to January 1, 2007, Eligible Executives described in Section 1.16(b) shall automatically be enrolled in the Plan.

2.2 **Participation in the Plan**. An Eligible Executive may elect to participate in the Plan for any Plan Year by delivering to the Administrator a properly executed election at the time and in the form provided by the Administrator, pursuant to which the Eligible Executive elects to defer receipt of a specified portion of the Compensation that would otherwise be payable to such Executive for the Plan Year, as described in Article III hereof.

2.3 **Cessation of Participation**. An Executive shall cease to be a Participant in the Plan if (a) he or she incurs a Termination of Employment for any reason, (b) he or she remains in the service of a Company but ceases to be an Eligible Executive as described in Section 1.16 due

to a change in employment status, except to the extent that the Committee determines otherwise, or (c) the Plan is terminated or otherwise amended so that the Executive ceases to be eligible for participation; provided, however, that such individual shall continue to be a Participant solely with respect to his or her vested Account balance until such Account balance is distributed from the Plan. Such cessation of participation shall be effective upon the date of the change in status described in clause (a) or (b) above, or upon the effective date of an amendment or termination of the Plan described in clause (c) above.

ARTICLE III
DEFERRAL OF COMPENSATION

3.1 **Election to Defer**. A Participant may elect to defer receipt of a portion of his or her Compensation for a Plan Year by delivering a properly executed election to the Administrator within the time specified in Section 3.2. The Participant's election shall be in a written form acceptable to the Administrator and shall specify:

3.1.1. the whole percentage of Excess Compensation for the Plan Year to be deferred to the Plan, which percentage may not exceed 5%;

3.1.2. the whole percentage of Base Salary, other than Annual Bonus, for the Plan Year to be deferred to the Plan, which percentage may not exceed 50%;

3.1.3. the whole percentage of Annual Bonus for the Plan Year to be deferred to the Plan, which percentage may not exceed 100% (reduced as necessary to provide for the deferral under Section 3.1.1);

3.1.4. if applicable, the investment fund or funds in which the Participant's Elective Deferrals, and Matching Contributions attributable to such Elective Deferrals, will be deemed to be invested pursuant to Section 5.2;

3.1.5. if applicable, the specific Scheduled Distribution Sub-Account or Sub-Accounts into which all or a portion of such Elective Deferrals and Matching Contributions will be directed, as described in Section 6.3; and

3.1.6. to the extent permitted by the Administrator under Section 6.4.1, the payment commencement date and method of distribution to apply to benefits distributable upon the Participant's Termination of Employment.

The deferral percentages under Section 3.1.2 and 3.1.3 shall be applied without regard to an election to defer under Section 3.1.1. For Plan Years prior to January 1, 2007, an Eligible Executive described in Section 1.16(b) shall be deemed to have elected to contribute to the Plan (i) 5% of his or her Excess Compensation for the Plan Year, or (ii) the amount of elective deferrals the Participant has elected to contribute to the Qualified Plan for the Plan Year in excess of the dollar limitation on pre-tax contributions set forth in Section 402(g) of the Code. Such a Participant may elect not to make such contributions to the Plan by filing an election not to participate acceptable to the Administrator within the time set forth in Section 3.4.1. A

Participant described in Section 1.16(b)(ii) shall not be permitted to change his or her deferral election to the Qualified Plan during the applicable Plan Year.

Elective Deferrals to the Plan shall be reduced to the extent necessary to pay federal, state or local employment taxes, including applicable FICA and FUTA taxes required to be withheld under Sections 3101 and 3501, respectively, of the Code, and any other required withholdings as determined by the Administrator.

An Executive who elects not to participate in the Plan at the time he or she first becomes eligible to do so may elect to become a Participant in any subsequent Plan Year by filing an election to defer Compensation as described above within the time provided in Section 3.2, provided that he or she is then eligible to participate in the Plan.

3.2 **Date for Filing Election**.

3.2.1. Except as provided below, an election to defer Compensation to be earned in a Plan Year shall be filed by the Participant with the Administrator as of a date established by the Administrator which is no later than December 31 of the Plan Year preceding the year in which such Compensation is earned.

3.2.2. In the case of an individual first employed as an Executive or first becoming eligible for this Plan (and any similar account-based deferred compensation plan of the Company) during a Plan Year, an election to defer Compensation (which may include Annual Bonus) earned subsequent to the initial date of employment or eligibility and subsequent to the date of such election may, to the extent permitted by the Plan Administrator, be filed by such Executive with the Administrator within thirty (30) days of such initial date of service or eligibility.

3.2.3. An election to defer Annual Bonus meeting the requirements for "performance-based" compensation under Treasury Regulation Section 1.409A-1(e) shall be filed with the Administrator as of a date established by the Administrator which is at least six months prior to the end of the performance period in which such Annual Bonus is earned, provided that (a) performance criteria have been established in writing by not later than 90 days after the commencement of the applicable performance period and the outcome is substantially uncertain at the time the criteria are established, (b) the Participant is in employment with the Company continuously from the later of the beginning of the performance period or the date such performance criteria are set, and (c) the election is made before such performance-based compensation has become readily ascertainable (*i.e.*, is both calculable in amount and substantially certain to be paid).

3.3 **Deferral Period**. The Deferral Period for a Participant's Compensation earned during any Plan Year shall begin on the first day of such Plan Year, provided that the Participant has filed an election to defer Compensation prior thereto, as described in Section 3.2.1. Notwithstanding the foregoing, in the case of an individual who is first employed as an Executive or who first becomes eligible for participation during a Plan Year, the Deferral Period shall begin as of the first day of the payroll period beginning after the filing of a timely election

by the Participant in such Plan Year, as described in Section 3.2.2. In each case, such Deferral Period shall end on the last day of the Plan Year. The Deferral Period for Annual Bonus meeting the requirements for "performance-based" compensation under Treasury Regulation Section 1.409A-1(e) shall be the performance period (which shall not be shorter than a Plan Year) to which such Annual Bonus relates.

3.4 **Revocation or Change of Deferral Election**.

3.4.1. A Participant may not voluntarily revoke or amend an election to defer Compensation under Section 3.1.1 after commencement of the Deferral Period. Such election shall automatically expire at the conclusion of the applicable Deferral Period, unless renewed within the time provided in Section 3.2.

3.4.2. A Participant may not revoke or amend an election to defer Annual Bonus meeting the requirements for "performance-based" compensation under Treasury Regulation Section 1.409A-1(e) after a date established by the Administrator which is not later than six months prior to the end of the performance period in which such Annual Bonus is earned; except that an election to defer Annual Bonus under Section 3.2.2 may not be revoked during the Deferral Period.

3.4.3. Notwithstanding the above, if a Participant incurs a Hardship, the Participant's Elective Deferrals under this Plan may, upon the request of the Participant and with the consent of the Administrator, be permanently suspended for a period of six (6) months (the "suspension period"). At the end of the suspension period, the Participant's Elective Deferrals shall automatically resume, provided that the Participant has timely filed a deferral election under Sections 3.1 and 3.2 with respect to the Deferral Period in effect when the suspension period ends.

3.5 **Vesting of Elective Deferrals**. A Participant shall be 100% vested in the balance of his or her Deferred Compensation Account attributable to Elective Deferrals at all times.

ARTICLE IV
COMPANY CONTRIBUTIONS

4.1 **Matching Contributions**. For each Plan Year in which a Participant elects under Section 3.1.1 to defer Excess Compensation, the Company shall make a Matching Contribution to the Participant's Deferred Compensation Account equal to 140% (or such other percentage as the Board of Directors shall determine) of the amount of such Elective Deferral up to 5% of Excess Compensation.

4.2 **Company Profit Sharing Contributions**. The Board of Directors may, in its sole discretion, make such additional contributions to the Plan for a Plan Year as it determines from time to time. Such contributions shall be allocated among Participants in such manner as the Board of Directors shall determine at the time the contribution is determined.

4.3 **Vesting of Company Contributions**. A Participant shall be vested in the balance of his or her Deferred Compensation Account attributable to Matching Contributions to the same

extent that the Participant is vested in matching contributions under the terms of the Qualified Plan. Unless the Board of Directors determines otherwise, a Participant shall be vested in the balance of his or her Deferred Compensation Account attributable to Company contributions under Section 4.2 to the same extent that the Participant is vested in similar Company contributions under the terms of the Qualified Plan. All benefits under the Plan shall become 100% vested upon the occurrence of a Change in Control.

ARTICLE V
INVESTMENT OF DEFERRED COMPENSATION

5.1 **Deferred Compensation Account**. The Administrator shall establish a Deferred Compensation Account on the books of the Plan for each Participant, reflecting Elective Deferrals, Matching Contributions and other Company contributions made for the Participant's benefit, together with any adjustments for income, gain or loss attributable thereto under Section 5.2, and any payments, distributions, transfers or forfeitures therefrom. The opening balance of the Participant's Deferred Compensation Account as of January 1, 2007 shall equal the balance of such Account as of the close of the preceding business day.

5.2 **Time for Crediting Contributions**. Elective Deferrals to the Plan with respect to any pay period will normally be credited to the Participant's Account within five (5) business days of the date that corresponding contributions attributable to Compensation earned in such pay period are credited under the Qualified Plan or would otherwise be paid to the Participant; provided, however, that no adjustment of earnings or losses shall be made with respect to Elective Deferrals under Section 5.3 prior to the earlier of (a) the 15th business day of the calendar month following the calendar month in which the Elective Deferral would otherwise have been paid to the Participant but for the Participant's deferral election, or (b) the date such amounts are actually credited to the Participant's Account on the books of the Plan. Company contributions for any Plan Year will be credited to the Plan no later than the date for filing the Company's Federal income tax returns for the Company's corresponding fiscal year, with extensions.

5.3 **Hypothetical Investment of Accounts**. The Deferred Compensation Account of a Participant, including each Sub-Account thereof, shall be adjusted as of each Valuation Date to reflect the income, gain or loss that would accrue to such Account, if assets in the Account were invested as described in this Section 5.2. Each Participant shall direct the hypothetical investment of the Elective Deferrals and Matching Contributions credited to the Plan on his or her behalf among such investment funds as are from time to time made available by the Committee. A Participant may, as of any Valuation Date, change the investment allocation of future Elective Deferrals or Matching Contributions, and may elect to transfer all or a portion of the balance of his or her Account hypothetically invested in one investment fund to any other investment fund or funds then available under the Plan, by directing the Administrator in such form and at such time as the Administrator shall require.

The hypothetical investment fund options available under the Plan shall be those designated by the Committee from time to time in its discretion. The Administrator may promulgate uniform and nondiscriminatory rules and procedures governing investment elections

under the Plan, including rules governing how credits or debits to an Account or Sub-Account shall be allocated among investment funds in the absence of a valid election.

5.4 **Statement of Account**. A statement shall be sent to each Participant as to the balance of his or her Deferred Compensation Account at least once each Plan Year. Electronic distribution (including a reminder that such statement is available electronically) will satisfy this requirement.

ARTICLE VI
PAYMENT OF DEFERRED COMPENSATION

6.1 **Hardship Distributions**. A Participant may request that all or a portion of his or her vested Account balance be distributed at any time by submitting a written request to the Administrator, provided that the Participant has incurred a Hardship, and the distribution is necessary to alleviate such Hardship. In determining whether the Hardship distribution request should be approved, the Administrator may rely on the Participant’s representation that the Hardship cannot be alleviated:

6.1.1. through reimbursement or compensation by insurance or otherwise;

6.1.2. by the Participant taking any withdrawals then available to him or her under the terms of the Qualified Plan;

6.1.3. by reasonable liquidation of the Participant’s assets, including amounts available for withdrawal from the Qualified Plan, to the extent such liquidation would not itself cause a severe financial hardship; or

6.1.4. by cessation of his or her elective deferrals under Section 3.4.3 of this Plan or a similar deferred compensation plan to the extent available.

6.2 **Administration of Hardship Distributions**. The Administrator shall deem a distribution to be necessary to alleviate a Hardship if the distribution does not exceed the amounts necessary to satisfy the Participant’s Hardship, plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution. The Account balance that is not distributed pursuant to the Hardship request shall remain in the Plan. Distributions to alleviate a Hardship will be made as soon as administratively feasible after the Administrator has reviewed and approved the request. An amount to be distributed for Hardship shall be debited from the Participant’s Deferred Compensation Account not held in a Scheduled Distribution Sub-Account, or (if such amount is not sufficient) from the Sub-Account(s) having the latest scheduled distribution date.

6.3 **Scheduled Distribution**. A Participant may elect to receive a Scheduled Distribution with respect to an Elective Deferral at the time he or she files the applicable deferral election under Section 3.1. A Participant may elect in accordance with Section 3.1.5 to direct all or a portion of his or her Elective Deferrals for the Plan Year into one (or, if permitted by the Administrator, more than one) Sub-Account(s), provided that any such Sub-Account has a scheduled distribution date which is not earlier than twelve (12) months after the end of the

Deferral Period to which the Elective Deferral relates. The Administrator may establish uniform and nondiscriminatory rules and procedures governing Scheduled Distribution Sub-Accounts, including establishing limitations on the number of Sub-Accounts available to Participants for any Deferral Period or in the aggregate, and the minimum length of deferral to be provided under any newly-established Sub-Account, as the Administrator deems appropriate.

To the extent permitted by the Administrator at the time of election, such election may designate whether the elected Scheduled Distribution will be paid as a result of the Participant's intervening death, Disability or Termination of Employment, or alternatively will continue to apply notwithstanding such intervening event. Except as otherwise elected by a Participant under the preceding sentence, an election of a Scheduled Distribution shall automatically terminate upon the Participant's death, Disability or Termination of Employment prior to age 65, at which time the provisions of Sections 6.4, 6.5 and 6.6 shall govern distribution of the Participant's Account; provided, however, that, unless the Participant elects otherwise with the consent of the Administrator, (1) a Scheduled Distribution Sub-Account payable at age 65 shall be paid when the Participant attains age 65, without regard to the Participant's intervening Termination of Employment (other than due to death); and (2) a Participant's intervening Termination of Employment (other than due to death) shall not accelerate a Scheduled Distribution then in pay status.

A Participant may, with the consent of the Administrator and to the extent permitted under Code Section 409A and regulations thereunder, elect to (a) revoke a Scheduled Distribution (provided that the Participant's Scheduled Distribution election would otherwise automatically terminate upon the Participant's Termination of Employment for any reason), in which case the balance of the applicable Sub-Account will be restored to the Participant's Deferred Compensation Account, or (b) extend to a later date the date permitted under Section 6.6 on which a Scheduled Distribution will occur, in which case the applicable Sub-Account will be redesignated (and merged with another existing Sub-Account having the same designated distribution date). A Participant may make an election under the preceding sentence by filing a new election prior to his or her Termination of Employment at such time and in such form as the Administrator shall designate. Any election to revoke or extend the date of a Scheduled Distribution shall not take effect until at least twelve months after the date on which it is made and must provide for a deferred distribution date not earlier than five years after the date such Scheduled Distribution was otherwise scheduled to be made and not later than the date set forth in Section 6.6. A Scheduled Distribution may be made in a single lump sum payment or in installments over two to eleven years (as described in Section 6.5.1 or 6.5.2, respectively).

6.4 **Death or Other Termination of Employment**.

6.4.1. *Initial Distribution Election*. A Participant who has incurred a Termination of Employment, whether by reason of voluntary or involuntary termination, death or Disability (each a "Distribution Event"), shall receive distribution of his or her Account (other than a Scheduled Distribution Sub-Account having a Scheduled Distribution date prior to the date of Termination of Employment or a Scheduled Distribution Sub-Account subject to a later Scheduled Distribution date with respect to which the Participant has elected under Section 6.3 that no intervening Distribution Event

shall apply) in a single lump sum payment as soon as practicable but in any event within ninety (90) days following such Termination of Employment. Notwithstanding the foregoing, the Administrator may permit a Participant to elect a later payment commencement date permitted under Section 6.6, or an alternate method of distribution permitted under Section 6.5, by filing a written request with the Administrator at the time the Participant files an initial deferral election under Section 3.2. To the extent permitted under rules established by the Administrator at the time of election, such an election may separately specify different times or available methods of payment for different Distribution Events.

6.4.2. *Changes in Distribution Election*. The Administrator may permit a Participant to defer the commencement of his or her distribution to a date permitted under Section 6.6, or select an alternative method of distribution permitted under Section 6.5, after the initial deferral election by filing a written request with the Administrator. Such a change election shall not take effect until at least twelve months after the date on which it is made and shall be effective only if (a) the election is filed with the Administrator before the Participant's Termination of Employment; (b) the election does not accelerate the timing or payment schedule of any distribution; (c) the payment commencement date in the change election is not less than five years after the date the distribution would otherwise have commenced for the Distribution Event without regard to such election; and (d) the Administrator approves such election. Except as otherwise provided in Section 6.7, a Participant's distribution election shall become irrevocable upon the Participant's Termination of Employment.

6.4.3. *Key Employees*. Notwithstanding the foregoing, in the case of a Key Employee who has a Termination of Employment (other than due to death) while any stock of the Company or any Affiliate is publicly traded on an established securities market or otherwise, distribution of the Participant's Account on account of such Termination of Employment may not be made earlier than six months after the date of the Termination of Employment (or if the Participant dies during such six month period, earlier than the date of the Participant's death). Such Participant's Account will be deemed to continue to be adjusted for investment gains or losses pending distribution as set forth in Section 5.3.

6.4.4. *Death*. If a Participant dies before distribution of his or her Account has commenced, the Participant's benefit under the Plan shall be paid to his or her Beneficiary in a single lump sum payment as soon as practicable following the Participant's death.

6.4.5. *Distribution Event*. Whether a Participant has incurred a Distribution Event shall be determined by the Administrator in a manner consistent with the requirements of Section 409A and regulations thereunder.

6.5 **Method of Payment**.

6.5.1. *Lump Sum Payment*. Distribution of a Participant's Account pursuant to Section 6.1, 6.3 or 6.4, may be made in a cash lump sum.

6.5.2. *Installment Distribution*. A Participant requesting distribution of an Account pursuant to Section 6.4 may, with the approval of the Administrator, receive distribution in periodic payments in lieu of a lump sum. Periodic payments shall be paid on an annual or quarterly basis, as permitted by the Administrator and elected by the Participant, over a period that does not exceed eleven (11) years. Each installment payment shall be determined by dividing the Participant's then-current Account balance by the number of payments remaining to be paid; provided, however, that if the Participant's (or Beneficiary's) aggregate vested Account balance is less than $100,000 at the time distributions commence due to Termination of Employment, the entire vested account balance shall be paid in a single lump sum payment at the time the Participant's (or Beneficiary's) initial installment distribution would otherwise be paid. The Administrator may establish uniform and nondiscriminatory rules and procedures governing the payment of installment distributions, including the maximum period over which installment distributions shall be made and the minimum amount which must be distributed in each installment, as the Administrator deems appropriate.

6.5.3. *Death of Participant or Beneficiary During Installment Distribution Period*. If a Participant who has elected installment payments under Section 6.5.2 dies after payments have commenced but before all amounts held in the Account have been distributed, then to the extent permitted by the Administrator at the time of the Participant's deferral election, any remaining Account balance shall be paid to the Beneficiary or Beneficiaries designated by the Participant over the then remaining installment period, or if the Participant has so elected, in a single lump sum payment as soon as practicable following the Participant's death. If the designated Beneficiary dies after the Participant but before all amounts held in the Account have been distributed, the then remaining balance in the Participant's Account shall be distributed in a lump sum payment to the Beneficiary's estate as provided in Section 6.5.1 (except to the extent that the Participant has designated one or more contingent Beneficiaries) as soon as practicable after the Beneficiary's death.

6.5.4. *Limit on Distribution Method*. Notwithstanding the foregoing, to the extent permitted under Section 409A, if the Deferred Compensation Account does not exceed $100,000 at the time distributions commence due to the Participant's Termination of Employment, the distribution shall be made in a single lump-sum payment.

6.6 **Payment Commencement Date**. A Participant may not elect a distribution date later than (a) April 1 of the calendar year after the year in which the Participant attains age 70½, or (b) five years after the Participant's Termination of Employment, if later.

6.7 **Transition Rules**. Pursuant to Internal Revenue Service Notice 2005-1, Q&A-19(c), as extended by Notice of Proposed Rulemaking REG-158080-04, a Participant may, prior to December 31, 2007, modify or make new elections regarding distribution of his or her Account(s) under Sections 6.3, 6.4 and 6.5, at such time and in such form as the Administrator

shall designate; provided, however, that no such distribution election may affect payments that the Participant would otherwise receive in 2007 or cause payments to be made in 2007. Notwithstanding any provision of the Plan to the contrary, if a Participant's Deferred Compensation Account is attributable solely to Elective Deferrals described in Section 1.16(b)(ii) (*i.e.*, the amount of elective deferrals the Participant has elected to contribute to the Qualified Plan for the Plan Year in excess of the dollar limitation on pre-tax contributions set forth in Section 402(g) of the Code), the Participant's Account shall be distributed to the Participant within the first ninety (90) days of 2008, notwithstanding any Participant election to the contrary.

6.8 **Acceleration of Payment Date**. Notwithstanding the foregoing, the distribution of benefits hereunder may be accelerated, with the consent of the Administrator, under the following circumstances:

6.8.1. *Compliance with Domestic Relations Order*. To permit payment to an individual other than the Participant as necessary to comply with the provisions of a domestic relations order (as defined in Code Section 414(p)(1)(B));

6.8.2. *Conflicts of Interest*. To permit payment as necessary to comply with the provisions of a Federal government ethics agreement or to avoid violation of an applicable Federal, state, local or foreign ethics law or conflicts of interest law;

6.8.3. *Payment of Employment Taxes*. To permit payment of federal employment taxes under Code Sections 3101, 3121(a) or 3121(v)(2), or to comply with any federal tax withholding provisions or corresponding withholding provisions of applicable state, local, or foreign tax laws as a result of the payment of federal employment taxes, and to pay the additional income tax at source on wages attributable to the pyramiding Code Section 3401 wages and taxes; or

6.8.4. *Tax Event*. Upon a good faith, reasonable determination by the Administrator, and upon advice of counsel, that the Plan fails to meet the requirements of Code Section 409A and regulations thereunder. Such payment may not exceed the amount required to be included in income as a result of the failure to comply with the requirements of Code Section 409A.

6.9 **Delay of Payments**. A payment otherwise required to be made under the terms of the Plan may be delayed solely to the extent necessary under the following circumstances, provided that payment is made as soon as possible within the first calendar year after the reason for delay no longer applies:

6.9.1. *Payments Subject to the Deduction Limitation*. The Company reasonably anticipates that such payment would otherwise violate Code Section 162(m);

6.9.2. *Violation of Law*. The Administrator reasonably determines that making the payment will violate Federal securities or other applicable laws; or

6.9.3. *Other Permitted Event*. Upon such other events and conditions as the Commissioner of Internal Revenue shall prescribe in generally applicable guidance

ARTICLE VII
ADMINISTRATION OF THE PLAN

7.1 **Administration by the Company**. The Committee shall be responsible for the general operation and administration of the Plan and for carrying out the provisions thereof. The Committee may appoint such person or persons as it deems appropriate to perform all or any of the functions of the Administrator under the terms of the Plan. To the extent that no such person or persons are appointed, the Committee shall serve as Administrator.

7.2 **General Powers of Administration**. The Committee shall have authority and discretion to control and manage the operation and administration of the Plan, including all rights and powers necessary or convenient to the carrying out of its functions hereunder, whether or not such rights and powers are specifically enumerated herein. The Committee may, in its discretion, delegate authority with regard to the administration of the Plan to any individual, officer or committee in accordance with Section 7.2.7 below. Notwithstanding any other provision of the Plan, if an action or direction of any person to whom authority hereunder has been delegated conflicts with an action or direction of the Committee, then the authority of the Committee shall supersede that of the delegate with respect to such action or direction.

Without limiting the generality of the foregoing, and in addition to the other powers set forth in this Section 7.2, the Committee or its delegate shall have the following express authorities:

7.2.1. To construe and interpret the provisions of the Plan; to decide all questions arising thereunder, including, without limitation, questions of eligibility for participation, eligibility for benefits, the validity of any election or designation made under the Plan, and the amount, manner and time of payment of any benefits hereunder; and to make factual determinations necessary or appropriate for such decisions or determination;

7.2.2. To prescribe procedures to be followed by Participants, Beneficiaries or alternate payees in filing applications for benefits and any other elections, designations and forms required or permitted under the Plan;

7.2.3. To prepare and distribute information explaining the Plan;

7.2.4. To receive from the Company and from Participants, Beneficiaries and alternate payees such information as shall be necessary for the proper administration of the Plan;

7.2.5. To furnish the Company or the Board of Directors, upon request, such reports with respect to the administration of the Plan as are reasonable and appropriate;

7.2.6. To appoint or employ advisors, including legal and actuarial counsel (who may also be counsel to the Company) to render advice with regard to any responsibility of the Committee under the Plan or to assist in the administration of the Plan;

7.2.7. To designate in writing other persons to carry out a specified part or parts of its responsibilities hereunder (including this power to designate other persons to carry out a part of such designated responsibility). Any such person may be removed by the Committee at any time with or without cause;

7.2.8. To rule on claims, and to determine the validity of domestic relations orders and comply with such orders; and

7.2.9. All rules, actions, interpretations and decisions of the Committee are conclusive and binding on all persons, and shall be given the maximum possible deference allowed by law.

7.3 **Rules of the Administrator**. The Administrator may adopt such rules as it deems necessary, desirable or appropriate. When making a determination or calculation, the Administrator shall be entitled to rely upon information furnished by a Participant or Beneficiary, the Company, the legal counsel of the Company, or such other person as it deems appropriate, and shall further be entitled to rely conclusively upon all tables, valuations, certificates, opinions and reports furnished by any actuary, accountant, controller, counsel or other person employed or engaged by the Company with respect to the Plan.

7.4 **Claims Procedure**. Any person who believes that he or she is then entitled to receive a benefit under the Plan may file a claim in writing with the Administrator. Except to the extent the Committee adopts an alternate procedure for the review of claims, the procedures in this Section 7.4 shall apply. The Administrator shall, within ninety (90) days of the receipt of a claim, either allow or deny the claim in writing. A denial of a claim shall be written in a manner calculated to be understood by the claimant and shall include: (a) the specific reason or reasons for the denial; (b) specific references to pertinent Plan provisions on which the denial is based; (c) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and (d) an explanation of the Plan’s claim review procedure. A claimant whose claim is denied (or his or her duly authorized representative) may, within sixty (60) days after receipt of denial of the claim: (1) submit a written request for review to the Committee; (2) review pertinent documents; and (3) submit issues and comments in writing. The Administrator shall notify the claimant of the decision of the Committee on review within sixty (60) days of receipt of a request. No legal action may be commenced by a Participant or Beneficiary with respect to a benefit under this Plan without first exhausting the Plan’s administrative claims procedures, and any legal action with respect to a claim that has been finally denied must be commenced no later than one year after the date of the Plan’s final denial of such claim upon appeal.

ARTICLE VIII
GENERAL PROVISIONS

8.1 **Participant's Rights Unsecured**. The right of any Participant to receive future payments under the provisions of the Plan shall be an unsecured claim against the general assets of the Company. The Company shall be under no obligation to establish any separate fund, purchase any annuity contract, or in any other way make any special provision or specifically earmark any funds for the payment of amounts called for under the Plan. If the Company chooses to establish such a fund, or purchase such an annuity contract or make any other agreement to provide for such payments, that fund, contract or arrangement shall remain part of the Company's general assets and no person claiming payments under the Plan shall have any right, title or interest in or to any such fund, contract or arrangement.

8.2 **Non-assignability**. None of the benefits, payments, proceeds or claims of any Participant or Beneficiary shall be subject to any claim of any creditor of any Participant or Beneficiary and, in particular, the same shall not be subject to attachment or garnishment or other legal process by any creditor of such Participant or Beneficiary, nor shall any Participant or Beneficiary have any right to alienate, anticipate, commute, pledge, encumber or assign any of the benefits or payments or proceeds which he or she may expect to receive, contingently or otherwise, under the Plan. Notwithstanding the foregoing, the Company shall comply with the terms of a domestic relations order applicable to a Participant's interest in the Plan, provided that such order does not require the payment of benefits in a manner or amount, or at a time, inconsistent with the terms of the Plan. The Company shall have no liability to any Participant or Beneficiary to the extent that his or her benefit is reduced in accordance with the terms of a domestic relations order that the Company applies in good faith.

8.3 **Taxes**. The Administrator shall withhold all federal, state or local taxes that it reasonably believes are required to be withheld from any payments under the Plan.

8.4 **Limitation of Participant's Rights**. Nothing contained in the Plan shall confer upon any person a right to be employed or to continue in the employ of the Company, or interfere in any way with the right of the Company to terminate the employment of a Participant at any time, with or without cause.

8.5 **Receipt and Release**. Any payment to any Participant or Beneficiary in accordance with the provisions of the Plan shall, to the extent thereof, be in full satisfaction of all claims against the Company or the Plan, and the Administrator may require such Participant or Beneficiary, as a condition precedent to such payment, to execute a receipt and release to such effect. If any Participant or Beneficiary is determined by the Administrator to be incompetent by reason of physical or mental disability (including minority) to give a valid receipt and release, the Administrator may cause the payment or payments becoming due to such person to be made to another person for his or her benefit without responsibility on the part of the Administrator or the Company to follow the application of such funds.

8.6 **Governing Law**. The Plan shall be construed, administered, and governed in all respects under and by the laws of the state of New York. If any provision shall be held by a

court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

8.7 **Designation of Beneficiary**. A Participant may designate a Beneficiary by so notifying the Administrator in writing, in a form acceptable to the Administrator, at any time before the Participant's death. A Participant may revoke any Beneficiary designation or designate a new Beneficiary at any time without the consent of a beneficiary or any other person. If no Beneficiary is designated or no designated Beneficiary survives the Participant, payment shall be made in a single lump sum to the Participant's estate.

8.8 **Successorship**. The Plan shall be binding upon and inure to the benefit of the Company and its successors and assigns, and the Participants, and the successors, assigns, designees and estates of the Participants. The Plan shall also be binding upon and inure to the benefit of any successor Company or organization succeeding to substantially all of the assets and business of the Company, but nothing in the Plan shall preclude the Company from merging or consolidating into or with, or transferring all or substantially all of its assets to, another Company which assumes the Plan and all obligations of the Company hereunder. The Company agrees that it will make appropriate provision for the preservation of Participants' rights under the Plan in any agreement or plan which it may enter into to effect any such merger, consolidation, reorganization or transfer of assets. In such a merger, consolidation, reorganization, or transfer of assets and assumption of Plan obligations of the Company, the term Company shall refer to such other Company and the Plan shall continue in full force and effect.

8.9 **Indemnification**. No Committee member shall be personally liable by reason of any instrument executed by him or on his behalf, or action taken by him, in his capacity as a Committee member nor for any mistake of judgment made in good faith. The Company shall indemnify and hold harmless the Plan and each Committee member and each employee, officer or director of the Company or the Plan, to whom any duty, power, function or action in respect of the Plan may be delegated or assigned, or from whom any information is requested for Plan purposes, against any cost or expense (including fees of legal counsel) and liability (including any sum paid in settlement of a claim or legal action with the approval of the Company) arising out of anything done or omitted to be done in connection with the Plan, unless arising out of such person's fraud or bad faith.

8.10 **Headings and Subheadings**. Headings and subheading in this Plan are inserted for convenience only and are not to be considered in the construction of the provisions hereof.

8.11 **Amendment and Termination**. The Plan may at any time or from time to time be amended, modified, or terminated by the Board of Directors. No amendment, modification, or termination shall, without the consent of a Participant, adversely affect the Participant's Deferred Compensation Account at that time. Upon termination of the Plan, the Board of Directors may elect to (a) pay benefits hereunder as they become due as if the Plan had not terminated or (b) to extent permitted by Code Section 409A and regulations thereunder, direct that all payments remaining to be made under the Plan be made in a single lump sum to Participants (or their Beneficiaries).

IN WITNESS WHEREOF, and pursuant to adoption of this Plan Document by the Board of Directors of the Company has approved and adopted this Plan Document this 1st day of July, 2010.

XL Group plc 2009 Cash Long-Term Program
(Amended and Restated as of April 30, 2010)

Section 1. Purposes of the Plan

The purpose of the 2009 Cash Long-Term Program is to advance the interests of XL Group plc and its shareholders by creating a transitional long-term incentive compensation vehicle for calendar year 2009 that is designed to be aligned with the delivery of underwriting results. The Plan is intended to foster a culture of performance, teamwork, accountability and retention for individuals who are selected to participate in the Plan in accordance with these guidelines. The Plan is designed to pay out in cash in annual installments over three years, as set forth below. There are no deferral provisions with respect to the Award Amounts.

Section 2. Definitions

"Award Amount" means the amount of a Participant's award under the Plan that is determined based on the Participant's Face Value Award and the 2009 Combined Ratio, as set forth in Section 5 below, subject to the other Plan terms set forth herein.

"Board" means the Board of Directors of the Company, or in the case of determinations hereunder pertaining to the Chief Executive Officer of the Company, the independent directors of the Board.

"Cause" shall mean (i) Participant's conviction of a felony involving moral turpitude, dishonesty or laws to which the Company or its Subsidiaries are subject in connection with the conduct of its or their business; (ii) Participant's willful misconduct that is materially injurious to the financial condition of the Company or a Subsidiary; (iii) the Participant's willful refusal to obey any lawful policy or requirement duly adopted by the Company or a Subsidiary, (iv) Participant's willful violation of the policies or Code of Conduct of the Company or a Subsidiary, (v) Participant's willful violation of the underwriting guidelines applicable to the Participant or the underwriting authority of the Participant, or (vi) as defined in an employment agreement between the Participant, the Company and/or Subsidiary.

"Code" means the United States Internal Revenue Code of 1986, as amended.

"2009 Combined Ratio" means the combined ratio of the Company and its Subsidiaries for the 2009 calendar year as reported by the Company, with the following adjustments determined as of the end of calendar year 2009: (i) net prior year development will be limited to $150 million in aggregate impact (favorable or adverse); and (ii) the impact of the restructuring charges contemplated in the Company's 2009 planning process will be excluded.

"Committee" means the Compensation Committee of the Board, or any successor Committee approved by the Board.

"Company" means XL Group plc.

"Disability" means permanent and total disability as determined under the Company's long-term disability plan covering the Participant.

"Face Value Award" is the amount of an award granted under this Plan (expressed in US$) that the Participant would earn for a 2009 Combined Ratio of 99.5%.

"Maximum Award" is the maximum Award Amount for any Participant, which shall be 175% of the Participant's Face Value Award.

"Minimum Award" is the minimum Award Amount for any Participant, which shall be 75% of the Participant's Face Value Award; provided, however, that payments under any Award Amount shall be made only to the extent vested in accordance with the provisions of the Plan.

"Named Executive" shall mean the Chief Executive Officer of the Company and any senior executive of the Company whose compensation was disclosed in the last preceding proxy statement pursuant to the federal securities laws and regulations of the United States.

"Participant" shall be as defined in Section 3.

"Plan" means the XL Group plc 2009 Cash Long-Term Program (2009 LTP).

"Subsidiary" means any corporation at least fifty percent (50%) percent of the outstanding voting stock of which is owned by the Company.

Section 3. Eligibility

Employees of the Company and its Subsidiaries are eligible to participate in the Plan. Except as otherwise set forth in Section 4.F. below, the Committee (or the Board with respect to a Named Executive) shall have the authority to select which of such employees shall participate in the Plan, and each of those so selected shall become a Participant.

Section 4. Administration

A. Committee. The Plan shall be administered by the Committee. Subject to Section 4.F. below, the Committee shall have full discretionary power, consistent with the Compensation Committee Charter, to:

(i) interpret the Plan;

(ii) determine those employees of the Company and its Subsidiaries who are eligible to participate in the Plan (except with respect to Named Executives, in which case the Board shall make such determination);

(iii) approve the determination of the 2009 Combined Ratio and the adjustments thereto (except with respect to Named Executives, in which case the Board shall have such approval authority);

(iv) establish the Face Value Award for each Participant (except with respect to Named Executives, in which case the Board shall make such determination); and

(v) adopt such rules, regulations, and guidelines for administering the Plan as the Committee may deem necessary or proper.

B. Adjustment to Payments. The Committee (or the Board in the case of a Named Executive) will have the discretion to adjust the payout result in the event of a catastrophic event (or a series of such events) above the normal budgeted catastrophe load, based on the quality of the Company's underwriting results compared to industry results. The Company retains the right to withhold any payment amounts determined hereunder from any Participant who materially violates the policies or Code of Conduct of the Company or its Subsidiaries or who materially violates the underwriting guidelines applicable to the Participant or the underwriting authority of the Participant.

C. Third-party Advisors. The Committee may employ attorneys, consultants, accountants, and other persons. The Board, Committee, the Company, and its officers shall be entitled to rely upon the advice or opinion of such persons.

D. Binding Effect of Committee Actions. All actions taken and all interpretations and determinations made by the Committee, the Board or the Chief Executive Officer of the Company (the "CEO") shall be final and binding upon the Participants, the Company, and all other interested persons. No member of the Committee or the Board or the CEO shall be personally liable for any action, determination, or interpretation made in good faith with respect to the Plan. All members of the Committee and the Board and the CEO shall be protected and indemnified by the Company, to the fullest extent permitted by applicable law and the Company's by-laws, in respect of any such action, determination, or interpretation of the Plan.

E. Foreign Jurisdictions. The Committee shall have the discretion to modify or amend the Plan, or adopt additional terms and or conditions, as may be deemed necessary or advisable in order to comply with the local laws and regulations of any jurisdiction.

F. CEO Authority For Non-Executives. Notwithstanding any provision of this Plan to the contrary, solely in the case of Participants who are not executive officers of the Company (within the meaning of Rule 3b-7 under the Securities Exchange Act of 1934, as amended), (i) the CEO shall have the authority to determine which of such nonexecutive officer employees will be Participants in the Plan, (ii) the Committee shall establish the maximum aggregate amount of the Face Value Awards for all such Participants, and (iii) the CEO will have the authority to establish, consistent with the terms hereof, the Face Value Awards for each such Participant.

Section 5. Determination of Awards

A. Face Value Award Determinations. Except as otherwise set forth in Section 4.F. above, the Committee (or in the case of any Named Executive, the Board) shall

establish the Face Value Award level for each Participant and, in connection therewith, the recommendations of the CEO shall be obtained and taken into account.

B. Award Amount Payment. The Award Amount for each Participant shall be the Participant's Face Value Award, adjusted upward or downward, as set forth in Appendix A hereto, based on the 2009 Combined Ratio. The Award Amount shall not be greater than the Maximum Award nor less than the Minimum Award. So long as the Participant remains continuously employed by the Company or a Subsidiary through the applicable payment date and has not given notice of termination of employment prior to the applicable payment date, (i) one third of the resulting Award Amount will be paid to the Participant on or after January 1, 2010 and on or prior to March 15, 2010, and (ii) an additional one third of such Award Amount shall be paid to the Participant on or after January 1, 2011 and on or prior to March 15, 2011. The remaining one third of the Award Amount shall be subject to further adjustment as described in Section 5.C below, and the resulting remaining adjusted amount, if any, shall be paid to the Participant on or after January 1, 2012 and on or prior to March 15, 2012, so long as the Participant remains continuously employed by the Company or a Subsidiary through the payment date and has not given notice of termination of employment prior to the payment date. For the avoidance of doubt, the third installment of the Award Amount, as adjusted and determined pursuant to Section 5.C below, cannot be less than zero (i.e., prior installment payments of the Award Amount will not be subject to claw-back) and it is subject to the cumulative maximum and minimum set forth in Appendix A.

C. Year Three Award Amount Payment. After the end of calendar year 2011 the adjusted Award Amount payable during calendar year 2012 shall be determined by recalculating the 2009 Combined Ratio to take into account subsequent reserve development (based on the methodology below) through calendar years 2010 and 2011, and the third Award Amount installment will be scaled up or down to reflect the revised calculation, applied on a cumulative basis. The 2009 Combined Ratio, as previously computed as of December 31, 2009, will be adjusted for this purpose as follows: (i) 50% of the 2009 accident year net prior year development and 50% of the 2010 accident year net prior year development (as reported on a cumulative basis through year end 2011) will be determined; (ii) that reserve development will be divided by the 2009 calendar year net earned premium and the resulting ratio will then be added or subtracted to/from the 2009 Combined Ratio to derive an adjusted 2009 Combined Ratio; and (iii) the adjusted 2009 Combined Ratio will be measured against the performance grid attached as Appendix A hereto, and the amount payable in 2012 will be adjusted to reflect the aggregate revised payout.

D. Cash Payments and No Deferral. All payments under this Plan will be made in cash, and there will be no right of further deferral with respect to any payments under the Plan.

Section 6. Termination of Employment

A. Payment Upon Death or Disability. In the event of a Participant's termination of employment due to his or her death or Disability, the Participant (or his/her estate) shall receive payment, if any, with respect an award as approved by the Committee (or the Board

with respect to Named Executives), and any such payment shall be made within sixty (60) days after the Participant's termination of employment.

B. Payment Upon Retirement. In the event of a Participant's termination of employment due to retirement, the Committee reserves the right to make any or no payment to the Participant in light of all relevant facts and circumstances. The Participant shall have no right to a payment. In the event a payment is made, such payment shall be made within sixty (60) days following the Participant's termination of employment due to retirement.

C. Termination by the Company or its Subsidiary Without Cause. In the event the Participant's employment is terminated by the Company or its Subsidiary not for Cause (including, in the case of a Participant who has an employment agreement with the Company or a Subsidiary, a termination by the Participant that is deemed to be a termination by the Company or its Subsidiary without Cause under the provisions of Section 8(d)(iv) of the employment agreement or a termination by the Participant for Good Reason under Section 8(d)(iii) of the employment agreement), the Participant will receive an amount as follows: (i) if such termination of employment occurs during calendar year 2009, the amount paid to the Participant will be the lesser of the Face Value Award or the Award Amount computed based on the 2009 Combined Ratio, and such amount shall be paid to the Participant on or after January 1, 2010 and on or prior to March 15, 2010; (ii) if such termination of employment occurs during calendar year 2010, the amount paid to the Participant will be the lesser of the Face Value Award or the Award Amount computed based on the 2009 Combined Ratio, reduced by any amount previously paid to the Participant in respect of the award, and such amount shall be paid to the Participant on or after January 1, 2011 and on or prior to March 15, 2011; and (iii) if such termination of employment occurs after calendar year 2010 and before the payment date for the third installment of the Award Amount, the amount paid to the Participant will be the lesser of the Face Value Award or the Award Amount computed based on the 2009 Combined Ratio (as adjusted as provided in Section 5.C. above), reduced by any amount previously paid to the Participant in respect of the award, and such amount, if any, shall be paid to the Participant on or after January 1, 2012 and on or prior to March 15, 2012.

D. Voluntary Termination of Employment by Participant. In the event of a Participant's voluntary termination of employment (not including, in the case of a Participant who has an employment agreement with the Company or its Subsidiary, a termination by the Participant that is deemed to be a termination by the Company or its Subsidiary without Cause under the provisions of Section 8(d)(iv) of the employment agreement or a termination by the Participant for Good Reason under Section 8(d)(iii) of the employment agreement) or the Participant's giving of notice of termination of employment, the Participant shall not be entitled to any further payment under the Plan and shall have no rights or interests in the Plan.

E. Termination by the Company or its Subsidiary for Cause. In the event the Participant's employment is terminated by the Company or its Subsidiary for Cause or notice of such termination has been given to the Participant, the Participant shall not be entitled to any further payment under the Plan and shall have no rights or interests in the Plan.

Section 7. General Provisions

A. No Right to Employment or Participation. No Participant or other person shall have any claim or right to be retained in the employment of the Company or a Subsidiary by reason of the Plan or to any award made as part of the Plan nor will the Plan be construed as having created an employment contract for any term.

B. Not Compensation Under Other Plans. An award made under this Plan shall not be considered “compensation” under any qualified or non-qualified, registered or non-registered employee benefit plan, program or arrangement of the Company or any Subsidiary and shall not have any effect on the level of benefits provided to or received by a Participant or his/her estate or designated beneficiary, as part of any employee benefit plan of the Company or its Subsidiaries.

C. Plan Expenses. The expenses of the Plan and its administration shall be borne by the Company.

D. Plan Not Funded. The Plan shall be unfunded and the Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any award made under the Plan.

E. Other Long-Term Incentive Arrangements. This Plan is not intended to be the sole and exclusive long term incentive program of the Company in which Participants may be entitled to participate in the ordinary course.

F. Reports. The appropriate officers of the Company shall cause to be filed any reports, returns, or other information regarding the Plan, as may be required by any applicable statute, rule, or regulation.

G. Withholding. The Company may deduct from any payment to a Participant under this Plan any Federal, state, or local withholding or other tax or charge which the Company is then required to deduct under applicable law with respect thereto.

H. No Transfers. No award or rights under this Plan may be transferred or assigned by a Participant other than by will or by the laws of descent and distribution.

I. Governing Law. The validity, construction, and effect of the Plan, and any actions relating to the Plan, shall be determined in accordance with the laws of the state of New York and applicable federal law, without regard to the conflict of laws provisions of any state or country.

J. Section 409A. It is intended that the Plan will comply with Section 409A of the Code and any regulations and guidelines issued thereunder, and the Plan shall be interpreted on a basis consistent with such intent. The Plan may be amended in any respect deemed necessary (including retroactively) by the Board in order to preserve compliance with Section 409A of the Code. It is intended that amounts payable under this Plan will not be considered to be deferred compensation for purposes of Section 409A of the Code by virtue of Treas. Reg. Section 1.409A-1(b)(4). However, if any amount payable hereunder is considered to be deferred compensation for such purposes, notwithstanding any provision to the contrary in this Plan, if a Participant is deemed on the date of his or her “separation from service” (within

the meaning of Treas. Reg. Section 1.409A-1(h)) to be a "specified employee" (within the meaning of Treas. Reg. Section 1.409A-1(i)), then with regard to any payment that is required to be delayed pursuant to Section 409A(a)(2)(B) of the Code (after taking into account the applicable provisions of Treas. Reg. Section 1.409A-1(b)(4)), the portion, if any, of such payment so required to be delayed shall not be made prior to the earlier of (i) the expiration of the six (6)-month period measured from the date of his "separation from service" or (ii) the date of his or her death (the "Delay Period"). Upon the expiration of the Delay Period, all payments delayed pursuant to this Section 7.J shall be paid to the Participant in a lump sum. No action or failure to act, pursuant to this Section 7.J shall subject the Company to any claim, liability, or expense, and the Company shall not have any obligation to indemnify or otherwise protect any Participant from the obligation to pay any tax, interest or penalty pursuant to Section 409A of the Code.

Section 8. Amendment / Termination of the Plan

The Board may, from time to time, amend the Plan in any respect, or may discontinue or terminate the Plan at any time; provided, however, that no amendment, discontinuance or termination of the Plan shall, without the consent of the affected Participant, have a material adverse effect on any Plan award which has been approved by the Committee (or the Board with respect to Named Executives) or the CEO with respect to nonexecutive officer Participants.

APPENDIX A

2009 Combined Ratio*:	Payout Percentage:
93 (or lower)	175.0%
94	162.5%
95	150.0%
96	137.5%
97	125.0%
98	115.0%
99	105.0%
99.5	100.0%
100	95.0%
101	85.0%
102 (or higher)	75.0%

* In the case of a 2009 Combined Ratio which includes a fraction, the associated payout percentage will be interpolated from this table, rounded to the nearest tenth of one percent (0.1%).

NONSTATUTORY STOCK OPTION AGREEMENT

THIS AGREEMENT, by and between XL Group plc, an Irish company (the "Company"), and You (the "Employee"), is effective as of ________, 201_.

WITNESSETH:

WHEREAS, the Board of Directors of the Company believes that the interest of the Company will be advanced by granting an incentive to employees and by encouraging and enabling them to acquire stock ownership in the Company and assuring a close identity of their interests with those of the Company; and

WHEREAS, pursuant to the provisions of the 1991 Performance Incentive Program (the "Program") of the Company, the Committee (as defined in the Program) has authorized and directed the execution and delivery of this Agreement in the name of and on behalf of the Company;

NOW THEREFORE, the parties hereto agree as follows:

a. Subject and pursuant to all terms and conditions stated in this Agreement and in the Program, which is incorporated by reference into this Agreement and made a part hereof as though herein fully set forth, the Company has granted on __________ 201__ (the "Grant Date") to the Employee the right and option to purchase all or any part of the aggregate number of Ordinary Shares of the Company (the "Shares") set forth below, to be issued or transferred as provided in the Program at the option price per share set forth below. This option shall not be treated as an incentive stock option as defined in Section 422 of the Code.

Option to purchase Shares, for $______ per share.

One-third of such option shall vest and become exercisable on each of the first three anniversaries of Grant Date; provided, however, that (i) the option shall be immediately vested and exercisable in full (A) in the event of a Change of Control (as defined in the Program), or (B) upon termination of the Employee's employment due to his or her death or Permanent Disability (as defined below); (ii) the option shall continue to vest and become exercisable on the according to the schedule set forth above following termination of employment of the Employee due to his or her Retirement (as defined below); and (iii) upon termination of the Employee's employment by the Company not for Cause (as defined below), the option will vest and become exercisable at the time of such termination of employment with respect to the number of Ordinary Shares, if any, that would have vested in accordance with the schedule set forth above if the Employee's employment had continued for an additional twelve (12) months.

For purposes hereof, "Permanent Disability" means those circumstances under which the Employee has been unable to perform his duties and responsibilities with the Company for at least 60 continuous days because of physical, mental or emotional incapacity resulting from injury, sickness or disease, and will be unable to continue to perform his or her duties and respon-

sibilities for a total of six (6) months in any twelve (12) month period because of physical, mental or emotional incapacity resulting from injury, sickness or disease; provided, however, that with respect to any Employee who has entered into an employment agreement with the Company, term of which has not expired at the time a determination concerning Permanent Disability is to be made, Permanent Disability shall have the meaning attributed in such employment agreement. For purposes hereof, “Retirement” shall mean the termination of employment by the Employee if (i) such termination of employment occurs after (x) the Employee has reached age 55, and (y) the sum of the Employee’s age and full years of continuous service with the Company equals or exceeds 65, and (ii) a determination has been made the Committee, in its sole discretion, that it is appropriate under the circumstances (taking into account, without limitation, the intention of the Employee with respect to future employment) for this option to become vested at the time of such termination of employment and be exercisable for the full term of the option as provided below. The portion of the option, if any, that is not exercisable immediately following termination of the Employee’s employment shall be immediately forfeited.

For purposes hereof, “Cause” shall mean: (A) conviction of the Employee of a felony involving moral turpitude or dishonesty; (B) the Employee, in carrying out his or her duties for the Company, has been guilty of (1) gross neglect or (2) willful misconduct; provided, however, that any act or failure to act by the Employee shall not constitute Cause for this purpose if such act or failure to act was committed, or omitted, by the Employee in good faith and in a manner reasonably believed to be in the overall best interests of the Company. The determination of whether the Employee acted in good faith and that he or she reasonably believed his or her action to be in the Company’s overall best interest will be in the reasonable judgment of the General Counsel of the Company or, if the General Counsel shall have an actual or potential conflict of interest, the Committee; (C) the Employee’s continued willful refusal to obey any appropriate policy or requirement duly adopted by the Company and the continuance of such refusal after receipt of notice; or (D) the Employee’s sustained failure to perform the essential duties of his or her role after receipt of notice.

b. To the extent the option herein granted becomes exercisable, it may be exercised in whole or in part by the Employee giving notice of exercise to the Program administrator designated from time to time by the Company stating the number of Shares with respect to which the option is being exercised. Such notice shall be in the form prescribed by the Company from time to time. Such exercise shall be effective upon (1) receipt of such notice by the Program administrator and (2) payment in full of the option price.

c. The Employee agrees (1) not to disclose any trade or secret data or any other confidential information acquired during employment by the Company or a subsidiary of the Company, during employment or after the termination of employment or retirement, (2) to abide by all the terms and conditions of the Program and such other terms and conditions as may be imposed by the Committee, and (3) not to interfere with the employment of any other employee of the Company or a subsidiary of the Company.

d. The options granted under this Agreement shall expire upon the first of the following events to occur:

(i) The tenth anniversary of the Agreement;

(ii) The third anniversary of the death or Permanent Disability of the Employee;

(iii) Unless otherwise provided in an Employment Agreement between the Employee and the Company, the third anniversary of termination of the Employee's employment by the Company not for Cause within two years following a Change of Control (the "Post-Change Period");

(iv) Ninety days following termination of the Employee's employment by the Company not for Cause outside a Post-Change Period;

(v) The last date of employment of the Employee if employment is terminated by the Company for Cause; or

(vi) Thirty days after the last date of employment of the Employee if employment terminates (x) other than as set forth in (ii), (iii), (iv) or (v) of this paragraph d and (y) other than due to Retirement. For the avoidance of doubt, if an Employee's employment terminates due to Retirement, the option shall remain exercisable until the tenth anniversary of this Agreement.

e. The Employee acknowledges that when the Employee is required to recognize income for any tax purposes as the result of the exercise of an option to purchase Shares pursuant to this Agreement, that such income may be subjected to the withholding of tax by the Company. The Employee agrees that the Company may either withhold an appropriate amount from any compensation or any other payment of any kind then payable or which may become payable to the Employee, or the Company may require the Employee to make a cash payment to the Company equal to the amount of withholding required in the opinion of the Company. In the event the Employee does not make such payment when requested, the Company may refuse to issue or cause to be delivered any Shares under this Agreement entered into pursuant to the Program until such payment has been made or arrangements for such payment satisfactory to the Company have been made. In addition, such withholding tax obligations may be satisfied by withholding Shares upon exercise of the option; provided that the amount of tax withholding to be satisfied by withholding Shares shall be limited to the minimum amount of taxes, including employment taxes, required to be withheld under applicable law.

f. The Employee shall have no rights as a shareholder with respect to any Ordinary Shares subject to this option prior to the date of exercise of the option by such Employee.

g. The option herein granted may be assigned or otherwise transferred only in the following circumstances: (i) by will or the laws of descent and distribution; (ii) by valid

beneficiary designation taking effect at death made in accordance with procedures established by the Committee; or (iii) by the Employee to members of his or her “immediate family”, to a trust established for the exclusive benefit of solely one or more members of the Employee’s “immediate family” and/or the Employee, or to a partnership, limited liability company or other entity pursuant to which the only owners are one or more members of the Employee’s “immediate family” and/or the Employee. Any option held by the transferee will continue to be subject to the same terms and conditions that were applicable to the option immediately prior to the transfer, except that the option will be transferable by the transferee only by will or the laws of descent and distribution. For purposes hereof, “immediate family” means the Employee’s children, stepchildren, grandchildren, parents, stepparents, grandparents, spouse, siblings (including half brothers and sisters), in-laws, and relationships arising because of legal adoption.

h. The Employee shall comply with the Company’s stock ownership guidelines as in effect from time to time.

i. Notwithstanding any term of this option to the contrary, the Company reserves the right to cancel this option or require the return of Shares received under this option (or the cash value of the Shares, as determined by the Board in its sole discretion) to the extent provided hereunder, and in accordance with, the Company’s Clawback Policy as in effect from time to time, such Policy which is incorporated into this Agreement by reference. As a condition to the grant of this option, the Employee agrees that he or she will be subject to, and comply with the terms of, the Company’s Clawback Policy as in effect from time to time as it applies to any compensation, including equity awards, bonus and other incentive awards.

j. Any notice required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given when delivered personally or by courier, or sent by certified or registered mail, postage prepaid, return receipt requested, duly addressed to the party concerned at the address indicated below or to such changed address as such party may subsequently by similar process give notice of:

If to the Company:

By Post:

XL Group plc
1 Hatch Street Upper
Dublin 2
Ireland

Attn.: General Counsel

If to the Employee:

At the Employee’s most recent address shown on the Company’s corporate records, or at any other address which the Employee may specify in a notice delivered to the Company in the manner set forth herein.

k. This Agreement shall be binding upon and inure to the benefit of the Company and the Employee and their respective heirs, representatives and successors.

l. The Employee, by execution of this Agreement, acknowledges receipt of the option granted on the date shown above, as well as a copy of the Program and the Program Prospectus.

m. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without reference to the principles of conflict of laws.

Exhibit 10.6

RESTRICTED STOCK UNIT AGREEMENT

AGREEMENT, by and between XL Group plc, an Irish company ("the Company"), and You (the "Grantee") is effective as of _________, 201_.

WHEREAS, the Grantee is an employee of the Company and/or any of its subsidiaries (collectively called the "Company"); and

WHEREAS, the Company regards the Grantee as a valuable employee of the Company and has determined it to be in the interest of the Company to grant to the Grantee an award of Restricted Stock Units under the Company's 1991 Performance Incentive Program (the "Program");

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein, and for other good and valuable consideration, the Company and the Grantee agree as follows:

(a) Grant of Restricted Stock Units.

The Company has granted to the Grantee an award (the "Award") of ___________________ Restricted Stock Units (the "Restricted Stock Units") on _______, 201_ (the "Grant Date"), subject and pursuant to all terms and conditions stated in this Agreement and in the Program, which is incorporated by reference into this Agreement and made a part hereof as though herein fully set forth,. Any capitalized terms used herein and not defined shall have the meanings given to those terms in the 1991 Performance Incentive Program.

(b) Vesting.

The Award will vest in three equal annual installments, beginning on the first anniversary of the Grant Date; provided, however, that the Award shall vest in full upon the Death of the Grantee, the Termination of Employment Due to Permanent Disability, or at a Change of Control (as defined in subparagraphs (e)(i), (e)(ii) and (e)(v) below) and shall vest as set forth in subparagraph (e)(iii) and paragraph (e)(iv) below in the event of termination of the Grantee's employment at Retirement or by the Company not for Cause, respectively. The portion of the Award, if any, that is not vested immediately following termination of the Grantee's employment (or that is not scheduled to vest under subparagraph (e)(iii) below following Retirement) shall be immediately forfeited.

(c) Distribution of Stock.

At the time the Award vests in accordance with paragraph (b) above, the Company shall distribute to the Grantee a number of Ordinary Shares, US$0.01 par value per share, of the Company (the "Shares") equal to the number of Restricted Stock Units which vested; provided, however, that, notwithstanding the foregoing, to the extent the Restricted Stock Units become vested due to the Grantee's Retirement, the Ordinary Shares corresponding thereto will be distributed to the Grantee at the earliest of the following: (i) at the times the Restricted Stock Units would have otherwise vested under the regular vesting schedule set forth in paragraph (b) above, (ii) upon the death of the Grantee, or (iii) upon a Change of Control, except that, if the Restricted Stock Units are deferred compensation for purposes of Section 409A of the Code, only if the event constituting a Change of Control also constitutes a "change in control event" (as defined in Treas. Reg. Section 1.409A-3(i)(5)) with respect to the Company. Prior to the Company's delivery of the Shares, the Grantee shall pay to the Company an amount of cash equal to the par value for each of such Shares delivered.

(d) Rights and Restrictions.

The Restricted Stock Units shall not be transferable other than pursuant to will or the laws of descent and distribution. Prior to vesting of the Restricted Stock Units and delivery of the Shares to the Grantee, the Grantee shall not have any rights and privileges of a shareholder as to the Shares subject to the Award. Specifically, the Grantee shall not, except as set forth in paragraph (f) below, have the right to receive dividends or the right to vote such Shares prior to vesting of the Award and delivery of the Shares.

(e) Special Termination Provisions.

(i) Death of Grantee. In the event the Grantee dies while in the employment of the Company, the Award shall vest in full immediately.

(ii) Termination of Employment Due to Permanent Disability. In the event the Grantee's employment with the Company is terminated by the Company by reason of the Grantee's Permanent Disability, the Award shall vest in full immediately. For purposes hereof, "Permanent Disability" means those circumstances under which the Grantee has been unable to perform his duties and responsibilities with the Company for at least 60 continuous days because of physical, mental or emotional incapacity resulting from injury, sickness or disease, and will be unable to continue to perform his or her duties and responsibilities for a total of six (6) months in any twelve (12) month period because of

physical, mental or emotional incapacity resulting from injury, sickness or disease; provided, however, that with respect to any Grantee who has entered into an employment agreement with the Company, term of which has not expired at the time a determination concerning Permanent Disability is to be made, Permanent Disability shall have the meaning attributed in such employment agreement.

(iii) Termination of Employment Due to Retirement. In the event the Grantee's employment with the Company is terminated due to his or her Retirement, the Award will continue to vest in accordance with the regular vesting schedule set forth in paragraph (b) above as if the Grantee's employment had not terminated. For purposes hereof "Retirement" shall mean the termination of employment by the Grantee if (i) such termination of employment occurs after (x) the Grantee has reached age 55, and (y) the sum of the Grantee's age and full years of continuous service with the Company equals or exceeds 65, and (ii) a determination has been made by the Committee, in its sole discretion, that it is appropriate under the circumstances (taking into account, without limitation, the intention of the Grantee with respect to future employment) for the Restricted Stock Units to continue to vest as described above.

(iv) Involuntary Termination of Employment. In the event the Grantee's employment with the Company is terminated by the Company not for Cause (as defined below), the Restricted Stock Units will vest immediately with respect to the number of Shares, if any, that would have vested in accordance with the regular vesting schedule set forth in paragraph (b) above as if the Grantee's employment had continued for an additional twelve (12) months. Any remaining unvested portion of the Restricted Stock Units will be immediately forfeited. "Cause" shall mean (i) conviction of the Grantee of a felony involving moral turpitude or dishonesty; (ii) the Grantee, in carrying out his or her duties for the Company, has been guilty of (A) gross neglect or (B) willful misconduct; provided, however, that any act or failure to act by the Grantee shall not constitute Cause for this purpose if such act or failure to act was committed, or omitted, by the Grantee in good faith and in a manner reasonably believed to be in the overall best interests of the Company; (iii) the Grantee's continued willful refusal to obey any appropriate policy or requirement duly adopted by the Company and the continuance of such refusal after receipt of notice; or (iv) Grantee's sustained failure to perform the essential duties of Grantee's role after receipt of notice. The determination of whether the Grantee acted in good faith and that he or she reasonably believed his or her action to be in the Company's overall best interest will be in the reasonable judgment of the General Counsel of the Company or, if the General Counsel shall have an actual or potential conflict of interest, the Committee.

(v) Change of Control. In the event there is a Change of Control of the Company (as defined in the Program), the Award shall vest in full immediately.

(f) Dividend Equivalents.

As of each date on which a cash dividend is paid on Shares, the number of Restricted Stock Units subject to this Award shall be increased by that number of Restricted Stock Units (including fractional units) determined by (i): multiplying the amount of such dividend (per Share) by the number of unpaid Restricted Stock Units subject to this Award immediately before the payment of the dividend; and (ii) dividing the total so determined by the Fair Market Value of a Share on the date of payment of such cash dividend. Such additional Restricted Stock Units shall have the same terms and conditions, including, without limitation, vesting and distribution terms and conditions, as the Restricted Stock Units in respect of which they were awarded.

(g) Status of Shares.

Upon issuance, the Shares shall rank equally in all respects with the other outstanding Shares and shall be fully paid.

(h) Adjustments for Recapitalizations, Etc.

In the event of any alteration or re-organization whatsoever taking place in the capital structure of the Company whether by way of capitalization of profits or reserves, capital distribution, rights issue, consolidation or sub-division of Shares, the conversion of one class of share to another or reduction of capital or otherwise the number of Shares subject to this Award shall be proportionately adjusted by the Board on an equitable basis.

(i) Obligations as to Capital.

The Company agrees that it will at all times maintain authorized and unissued share capital sufficient to fulfill all of its obligations under this Agreement.

(j) Withholding.

The Grantee agrees to make appropriate arrangements with the Company for satisfaction of any applicable income tax withholding requirements or social security or similar withholding requirements arising out of the Award. Such withholding tax obligations may be satisfied by withholding Shares from this Award; provided that the amount of

tax withholding to be satisfied by withholding Shares shall be limited to the minimum amount of taxes, including employment taxes, required to be withheld under applicable law.

(k) Transfer Restrictions.

Grantee shall comply with the Company's stock ownership guidelines as in effect from time to time.

(l) References.

References herein to rights and obligations of the Grantee shall apply, where appropriate, to the estate or personal representative of the Grantee without regard to whether specific reference to them is contained in a particular provision of this Agreement.

(m) Notice.

Any notice required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given when delivered personally or by courier, or sent by certified or registered mail, postage prepaid, return receipt requested, duly addressed to the party concerned at the address indicated below or to such changed address as such party may subsequently by similar process give notice of:

If to the Company:

By Post:

XL Group plc
1 Hatch Street Upper
Dublin 2
Ireland

Attn.: General Counsel

If to the Grantee:

At the Grantee's most recent address shown on the Company's corporate records, or at any other address which the Grantee may specify in a notice delivered to the Company in the manner set forth herein.

(n) Section 409A.

It is intended that this Agreement will comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and any regulations and guidelines promulgated thereunder (collectively, "Section 409A"), to the extent the Agreement is subject thereto, and the Agreement shall be interpreted on a basis consistent with such intent. If an amendment of the Agreement is necessary in order for it to comply with Section 409A or Section 457A of the Code (and not result in tax or penalties under such Sections), the Company may modify the Agreement in good faith in a manner that preserves the original intent of the parties to the extent reasonably possible. Notwithstanding any provision to the contrary in this Agreement, if Grantee is deemed on the date of his or her "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Company to be a "specified employee" (within the meaning of Treas. Reg. Section 1.409A-1(i)), then with regard to any payment that is considered deferred compensation under Section 409A payable on account of a "separation from service" that is required to be delayed pursuant to Section 409A(a)(2)(B) of the Code (after taking into account any applicable exceptions to such requirement), such payment shall be made on the date that is the earlier of (i) the expiration of the six (6)-month period measured from the date of Grantee's "separation from service," or (ii) the date of Grantee's death (the "Delay Period"). Upon the expiration of the Delay Period, all payments delayed pursuant to this paragraph (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid to Grantee in a lump sum and any remaining payments due under this Agreement shall be paid in accordance with the normal payment dates specified for them herein. Notwithstanding any provision of this Agreement to the contrary, for purposes of any provision of this Agreement providing for the payment of any amounts upon or following a termination of employment that are considered deferred compensation under Section 409A, references to Grantee's "termination of employment" (and corollary terms) with the Company shall be construed to refer to Grantee's "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Company. Whenever payments under this Agreement are to be made in installments, each such installment shall be deemed to be a separate payment for purposes of Section 409A.

(o) Clawback Policy

Notwithstanding any term of these Restricted Stock Units to the contrary, the Company reserves the right to cancel these Restricted Stock Units or require the return of Shares received under these Restricted Stock Units (or the cash value of the Shares, as determined by the Board in its sole discretion) to the extent provided under, and in accordance with, the Company's Clawback Policy as in effect from time to time, which Policy is incorporated into this Agreement by reference. As a condition to the grant of these Restricted Stock Units, the Grantee agrees that he or she will be subject to, and comply with the terms of, the Company's

Clawback Policy as in effect from time to time as it applies to any compensation, including equity awards, bonus and other incentive awards.

(p) <u>Governing Law.</u>

This Agreement shall be governed by and construed in accordance with the laws of the State of New York without reference to the principles of conflict of laws.

RESTRICTED STOCK UNIT AGREEMENT
(for U.S. Taxpayers Based in the Bermuda)

AGREEMENT, by and between XL Group plc, an Irish company ("the Company"), and You (the "Grantee") is effective as of __________, 201_.

WHEREAS, the Grantee is an employee of the Company and/or any of its subsidiaries (collectively called the "Company"); and

WHEREAS, the Company regards the Grantee as a valuable employee of the Company and has determined it to be in the interest of the Company to grant to the Grantee an award of Restricted Stock Units under the Company's 1991 Performance Incentive Program (the "Program");

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein, and for other good and valuable consideration, the Company and the Grantee agree as follows:

(a) <u>Grant of Restricted Stock Units.</u>

The Company has granted to the Grantee an award (the "Award") of ___________________ Restricted Stock Units (the "Restricted Stock Units") on ________, 201_ (the "Grant Date"), subject and pursuant to all terms and conditions stated in this Agreement and in the Program, which is incorporated by reference into this Agreement and made a part hereof as though herein fully set forth,. Any capitalized terms used herein and not defined shall have the meanings given to those terms in the 1991 Performance Incentive Program.

(b) <u>Vesting.</u>

The Award will vest in three equal annual installments, beginning on the first anniversary of the Grant Date; <u>provided</u>, <u>however</u>, that the Award shall vest in full upon the Death of the Grantee, the Termination of Employment Due to Permanent Disability, or at a Change of Control (as defined in subparagraphs (e)(i), (e)(ii) and (e)(iv) below) and shall vest as set forth in paragraph (e)(iii) below in the event of termination of the Grantee's employment by the Company not for Cause. The portion of the Award, if any, that is not vested immediately following termination of the Grantee's employment shall be immediately forfeited.

(c) Distribution of Stock.

At the time the Award vests in accordance with paragraph (b) above, the Company shall distribute to the Grantee a number of Ordinary Shares, US$0.01 par value per share, of the Company (the "Shares") equal to the number of Restricted Stock Units which vested, and the Shares corresponding thereto will be distributed to the Grantee at the earliest of the following: (i) at the times the Restricted Stock Units would have otherwise vested under the regular vesting schedule set forth in paragraph (b) above, (ii) upon the death of the Grantee, or (iii) upon a Change of Control, except that, if the Restricted Stock Units are deferred compensation for purposes of Section 409A of the Code, only if the event constituting a Change of Control also constitutes a "change in control event" (as defined in Treas. Reg. Section 1.409A-3(i)(5)) with respect to the Company. Prior to the Company's delivery of the Shares, the Grantee shall pay to the Company an amount of cash equal to the par value for each of such Shares delivered.

(d) Rights and Restrictions.

The Restricted Stock Units shall not be transferable other than pursuant to will or the laws of descent and distribution. Prior to vesting of the Restricted Stock Units and delivery of the Shares to the Grantee, the Grantee shall not have any rights and privileges of a shareholder as to the Shares subject to the Award. Specifically, the Grantee shall not, except as set forth in paragraph (f) below, have the right to receive dividends or the right to vote such Shares prior to vesting of the Award and delivery of the Shares.

(e) Special Termination Provisions.

(i) Death of Grantee. In the event the Grantee dies while in the employment of the Company, the Award shall vest in full immediately.

(ii) Termination of Employment Due to Permanent Disability. In the event the Grantee's employment with the Company is terminated by the Company by reason of the Grantee's Permanent Disability, the Award shall vest in full immediately. For purposes hereof, "Permanent Disability" means those circumstances under which the Grantee has been unable to perform his duties and responsibilities with the Company for at least 60 continuous days because of physical, mental or emotional incapacity resulting from injury, sickness or disease, and will be unable to continue to perform his or her duties and responsibilities for a total of six (6) months in any twelve (12) month period because of physical, mental or emotional incapacity resulting from injury, sickness or disease; provided, however, that with respect to any Grantee

who has entered into an employment agreement with the Company, term of which has not expired at the time a determination concerning Permanent Disability is to be made, Permanent Disability shall have the meaning attributed in such employment agreement.

(iii) Involuntary Termination of Employment. In the event the Grantee's employment with the Company is terminated by the Company not for Cause (as defined below), the Restricted Stock Units will vest immediately with respect to the number of Shares, if any, that would have vested in accordance with the regular vesting schedule set forth in paragraph (b) above as if the Grantee's employment had continued for an additional twelve (12) months. Any remaining unvested portion of the Restricted Stock Units will be immediately forfeited. "Cause" shall mean (i) conviction of the Grantee of a felony involving moral turpitude or dishonesty; (ii) the Grantee, in carrying out his or her duties for the Company, has been guilty of (A) gross neglect or (B) willful misconduct; provided, however, that any act or failure to act by the Grantee shall not constitute Cause for this purpose if such act or failure to act was committed, or omitted, by the Grantee in good faith and in a manner reasonably believed to be in the overall best interests of the Company; (iii) the Grantee's continued willful refusal to obey any appropriate policy or requirement duly adopted by the Company and the continuance of such refusal after receipt of notice; or (iv) Grantee's sustained failure to perform the essential duties of Grantee's role after receipt of notice. The determination of whether the Grantee acted in good faith and that he or she reasonably believed his or her action to be in the Company's overall best interest will be in the reasonable judgment of the General Counsel of the Company or, if the General Counsel shall have an actual or potential conflict of interest, the Committee.

(iv) Change of Control. In the event there is a Change of Control of the Company (as defined in the Program), the Award shall vest in full immediately.

(f) Dividend Equivalents.

As of each date on which a cash dividend is paid on Shares, the number of Restricted Stock Units subject to this Award shall be increased by that number of Restricted Stock Units (including fractional units) determined by (i): multiplying the amount of such dividend (per Share) by the number of unpaid Restricted Stock Units subject to this Award immediately before the payment of the dividend; and (ii) dividing the total so determined by the Fair Market Value of a Share on the date of payment of such cash dividend. Such additional Restricted Stock Units shall have the same terms and conditions, including, without limitation, vesting and distribution terms and conditions, as the Restricted Stock Units in respect of which they were awarded.

(g) Status of Shares.

Upon issuance, the Shares shall rank equally in all respects with the other outstanding Shares and shall be fully paid.

(h) Adjustments for Recapitalizations, Etc.

In the event of any alteration or re-organization whatsoever taking place in the capital structure of the Company whether by way of capitalization of profits or reserves, capital distribution, rights issue, consolidation or sub-division of Shares, the conversion of one class of share to another or reduction of capital or otherwise, the number of Shares subject to this Award shall be proportionately adjusted by the Board on an equitable basis.

(i) Obligations as to Capital.

The Company agrees that it will at all times maintain authorized and unissued share capital sufficient to fulfill all of its obligations under this Agreement.

(j) Withholding.

The Grantee agrees to make appropriate arrangements with the Company for satisfaction of any applicable income tax withholding requirements or social security or similar withholding requirements arising out of the Award. Such withholding tax obligations may be satisfied by withholding Shares from this Award; provided that the amount of tax withholding to be satisfied by withholding Shares shall be limited to the minimum amount of taxes, including employment taxes, required to be withheld under applicable law.

(k) Transfer Restrictions.

Grantee shall comply with the Company's stock ownership guidelines as in effect from time to time.

(l) References.

References herein to rights and obligations of the Grantee shall apply, where appropriate, to the estate or personal representative of the Grantee without regard to whether specific reference to them is contained in a particular provision of this Agreement.

(m) Notice.

Any notice required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given when delivered personally or by courier, or sent by certified or registered mail, postage prepaid, return receipt requested, duly addressed to the party concerned at the address indicated below or to such changed address as such party may subsequently by similar process give notice of:

If to the Company:

By Post:

XL Group plc
1 Hatch Street Upper
Dublin 2
Ireland

Attn.: General Counsel

If to the Grantee:

At the Grantee's most recent address shown on the Company's corporate records, or at any other address which the Grantee may specify in a notice delivered to the Company in the manner set forth herein.

(n) Section 409A.

It is intended that this Agreement will comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and any regulations and guidelines promulgated thereunder (collectively, "Section 409A"), to the extent the Agreement is subject thereto, and the Agreement shall be interpreted on a basis consistent with such intent. If an amendment of the Agreement is necessary in order for it to comply with Section 409A or Section 457A of the Code (and not result in tax or penalties under such Sections), the Company may modify the Agreement in good faith in a manner that preserves the original intent of the

parties to the extent reasonably possible. Notwithstanding any provision to the contrary in this Agreement, if Grantee is deemed on the date of his or her "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Company to be a "specified employee" (within the meaning of Treas. Reg. Section 1.409A-1(i)), then with regard to any payment that is considered deferred compensation under Section 409A payable on account of a "separation from service" that is required to be delayed pursuant to Section 409A(a)(2)(B) of the Code (after taking into account any applicable exceptions to such requirement), such payment shall be made on the date that is the earlier of (i) the expiration of the six (6)-month period measured from the date of Grantee's "separation from service," or (ii) the date of Grantee's death (the "Delay Period"). Upon the expiration of the Delay Period, all payments delayed pursuant to this paragraph (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid to Grantee in a lump sum and any remaining payments due under this Agreement shall be paid in accordance with the normal payment dates specified for them herein. Notwithstanding any provision of this Agreement to the contrary, for purposes of any provision of this Agreement providing for the payment of any amounts upon or following a termination of employment that are considered deferred compensation under Section 409A, references to Grantee's "termination of employment" (and corollary terms) with the Company shall be construed to refer to Grantee's "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Company. Whenever payments under this Agreement are to be made in installments, each such installment shall be deemed to be a separate payment for purposes of Section 409A.

(o) Clawback Policy

Notwithstanding any term of these Restricted Stock Units to the contrary, the Company reserves the right to cancel these Restricted Stock Units or require the return of Shares received under these Restricted Stock Units (or the cash value of the Shares, as determined by the Board in its sole discretion) to the extent provided under, and in accordance with, the Company's Clawback Policy as in effect from time to time, which Policy is incorporated into this Agreement by reference. As a condition to the grant of these Restricted Stock Units, the Grantee agrees that he or she will be subject to, and comply with the terms of, the Company's Clawback Policy as in effect from time to time as it applies to any compensation, including equity awards, bonus and other incentive awards.

(p) Governing Law.

This Agreement shall be governed by and construed in accordance with the laws of the State of New York without reference to the principles of conflict of laws.

Exhibit 10.8

PERFORMANCE UNIT AGREEMENT

AGREEMENT, by and between XL Group plc, an Irish company ("the Company"), and You (the "Grantee") is effective as of _________, 2010.

WHEREAS, Grantee is an employee of the Company and/or any of its subsidiaries (collectively called the "Company"); and

WHEREAS, the Company regards Grantee as a valuable employee of the Company and has determined it to be in the interest of the Company to grant to Grantee an award of Performance Units under the Company's 1991 Performance Incentive Program;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein, and for other good and valuable consideration, the Company and Grantee agree as follows:

(a) Grant of Performance Units.

The Company has granted to Grantee an award (the "Award") on ________, 201_ (the "Grant Date") with a target amount of Performance Units (the "Target Amount"), subject to the restrictions set forth below (the "Performance Units"). The percentage of the Award that will be earned will range from 0% to 200% of the Target Amount, depending on achievement of the performance goals for the Performance Period established by the Management Development and Compensation Committee of the Board of Directors (the "Committee"). Notwithstanding the foregoing, the Committee, in its independent judgment, reserves the authority to increase or decrease the payout amount, including the authority to make no payout at all—regardless of the actual achievement of performance goals—in response to economic conditions at the time of payout, better or lower than expected performance in other important business/financial measures, or any other reason. The Award is granted pursuant to the terms of the Company's 1991 Performance Incentive Program, which is incorporated by reference herein. Any capitalized terms used herein and not defined shall have the meanings given to those terms in the 1991 Performance Incentive Program.

(b) Vesting.

Except as otherwise provided in paragraph (e) below, (i) the percentage of the Award that will be earned will be determined following the end of the Performance Period based on the level of achievement of the performance goals set forth as adjusted (if applicable) by the Committee (the "Earned Award"), and (ii) the Earned Award will vest only if Grantee remains continuously employed by the Company through the Payment Date. The Payment Date will be after January 1 of the calendar year immediately following the end of the Performance Period and on or prior to March 15 of such calendar year, as determined by the Company. Except as otherwise set forth in paragraph (e) below, the portion of the Award, if any, that is not vested immediately following termination of Grantee's employment shall be immediately forfeited. The Performance Period will begin on January 1, 201_ and end on December 31, 201_.

(c) Distribution of Stock.

On the Payment Date in accordance with paragraph (b) above, the Company shall distribute to Grantee a number of Ordinary Shares, US$0.01 par value per share, of the Company (the “Shares”) equal to the number of Performance Units, if any, that vested. To the extent applicable, Shares shall be distributed as set forth in paragraph (e) below. Prior to the Company’s delivery of the Shares, Grantee shall pay to the Company an amount of cash equal to the par value for each of such Shares delivered.

(d) Rights and Restrictions.

The Performance Units shall not be transferable other than pursuant to will or the laws of descent and distribution. Prior to vesting of the Performance Units and delivery of the Shares to Grantee, Grantee shall not have any rights and privileges of a shareholder as to the Shares subject to the Award. Specifically, Grantee shall not have the right to receive dividends or the right to vote such Shares prior to vesting of the Award and delivery of the Shares.

(e) Early Termination.

(i) Death of Grantee. In the event Grantee dies while in the employment of the Company, the following portion of the Award will vest and Shares equal to the number of such vested Performance Units will be distributed at the time set forth in this clause (i) below: (x) the percentage of the Award earned based upon the extent, if any, of attainment of the performance goals for the Award as measured at the earlier of the end of the calendar year during which such death occurs or the end of the Performance Period, multiplied by (y) a fraction, the numerator of which is the number of days during the Performance Period ending on the date of Grantee’s death and the denominator of which is the number of days in the Performance Period. Such Shares will be distributed to Grantee’s estate or beneficiary on the earlier of: (x) the date after January 1 of the calendar year immediately following the calendar year during which such death occurs and on or prior to March 15 of such calendar year, as determined by the Company, or (y) the Payment Date described pursuant to paragraphs (b) and (c) above.

(ii) Termination of Employment Due to Permanent Disability. In the event Grantee’s employment with the Company is terminated by the Company by reason of Grantee’s Permanent Disability, the following portion of the Award will vest and Shares equal to the number of such vested Performance Units will be distributed at the time set forth in this clause (ii) below: (x) the percentage of the Award earned based upon the extent, if any, of attainment of the performance goals for the Award as measured at the earlier of the end of the calendar year during which such termination of employment occurs or the end of the Performance Period, multiplied by (y) a fraction, the numerator of which is the number of days during the Performance Period ending on the date of Grantee’s termination of employment and the denominator of which is the number of days in the Performance Period. Such Shares will be distributed to Grantee on the earlier of: (x) the date after January 1 of the calendar year immediately following the calendar year during which such termination of employment occurs and on or prior to March 15 of such calendar year, as determined by the Company, or (y) the Payment Date described pursuant to paragraphs (b) and (c) above. For purposes hereof, “Permanent Disability” means those circumstances under which Grantee has been unable to perform his or her duties and responsibilities with the Company for at least 60 continuous days

because of physical, mental or emotional incapacity resulting from injury, sickness or disease, and will be unable to continue to perform his or her duties and responsibilities for a total of six (6) months in any twelve (12) month period because of physical, mental or emotional incapacity resulting from injury, sickness or disease; provided, however, that with respect to any Grantee who has entered into an employment agreement with the Company, term of which has not expired at the time a determination concerning Permanent Disability is to be made, Permanent Disability shall have the meaning attributed in such employment agreement.

(iii) Termination of Employment Due to Retirement. In the event Grantee's employment with the Company is terminated due to his or her Retirement, the following portion of the Award will vest and Shares equal to the number of such vested Performance Units will be distributed at the time set forth in this clause (iii) below: (x) the percentage of the Award earned based upon the extent, if any, of attainment of the performance goals for the Award as measured at the end of the Performance Period, multiplied by (y) a fraction, the numerator of which is the number of days during the Performance Period ending on the date of Grantee's Retirement and the denominator of which is the number of days in the Performance Period. Such Shares will be distributed to Grantee on the Payment Date described pursuant to paragraphs (b) and (c) above. For purposes hereof "Retirement" shall mean the termination of employment by Grantee if (i) such termination of employment occurs after (x) Grantee has reached age 55, and (y) the sum of Grantee's age and full years of continuous service with the Company equals or exceeds 65, and (ii) a determination has been made by the Committee, in its sole discretion, that it is appropriate under the circumstances (taking into account, without limitation, the intention of Grantee with respect to future employment) for the Performance Units to become vested at the time of such termination of employment.

(iv) Termination Not For Cause. In the event Grantee's employment with the Company is terminated by the Company not for Cause (as defined below), the following portion of the Award will vest and Shares equal to the number of such vested Performance Units will be distributed at the time set forth in this clause (iv) below: (x) the percentage of the Award earned based upon the extent, if any, of attainment of the performance goals for the Award as measured at the end of the Performance Period, multiplied by (y) a fraction, the numerator of which is the number of days during the Performance Period ending on the date of such termination of employment and the denominator of which is the number of days in the Performance Period. Such Shares will be distributed to Grantee on the Payment Date described pursuant to paragraphs (b) and (c) above. For purposes hereof, "Cause" shall mean (I) conviction of Grantee of a felony involving moral turpitude or dishonesty; (II) Grantee, in carrying out his or her duties for the Company, has been guilty of (A) gross neglect or (B) willful misconduct; provided, however, that any act or failure to act by Grantee shall not constitute Cause for this purpose if such act or failure to act was committed, or omitted, by Grantee in good faith and in a manner reasonably believed to be in the overall best interests of the Company; (III) Grantee's continued willful refusal to obey any appropriate policy or requirement duly adopted by the Company and the continuance of such refusal after receipt of notice; or (IV) Grantee's sustained failure to perform the essential duties of Grantee's role after receipt of notice. The determination of whether Grantee acted in good faith and that he or she reasonably believed his or her action to be in the Company's overall best interest will be in the reasonable judgment of

the General Counsel of the Company or, if the General Counsel shall have an actual or potential conflict of interest, the Committee.

(v) Change of Control. In the event there is a Change of Control of the Company during the period that Grantee is employed by the Company, the Award will vest at target (100%) and Shares equal to the number of such vested Performance Units will be distributed to Grantee at the time of the Change of Control; provided, however, that, if the Performance Units are deferred compensation for purposes of Section 409A of the Code, distribution of such Shares will be accelerated to the time of the Change of Control only if the event constituting a Change of Control also constitutes a "change in control event" (as defined in Treas. Reg. Section 1.409A-3(i)(5)) with respect to the Company.

(f) Status of Shares.

Upon issuance, the Shares shall rank equally in all respects with the other outstanding Shares of the Company and shall be fully paid.

(g) Adjustments for Recapitalizations, Etc.

In the event of any alteration or re-organization whatsoever taking place in the capital structure of the Company whether by way of capitalization of profits or reserves, capital distribution, rights issue, consolidation or sub-division of Shares, the conversion of one class of share to another or reduction of capital or otherwise, the number of Shares subject to this Award shall be proportionately adjusted by the Board on an equitable basis.

(h) Obligations as to Capital.

The Company agrees that it will at all times maintain authorized and unissued share capital sufficient to fulfill all of its obligations under this Agreement.

(i) Dividend Equivalents.

Dividend equivalents will not be paid with respect to Grantee's Performance Unit Award.

(j) Withholding.

Grantee agrees to make appropriate arrangements with the Company for satisfaction of any applicable income tax withholding requirements or social security or similar requirements arising out of the Award. Such withholding tax obligations may be satisfied by withholding Shares from this Award; provided that the amount of tax withholding to be satisfied by withholding Shares shall be limited to the minimum amount of taxes, including employment taxes, required to be withheld under applicable law.

(k) Transfer Restrictions.

Grantee shall comply with the Company's stock ownership guidelines as in effect from time to time.

(l) References.

References herein to rights and obligations of Grantee shall apply, where appropriate, to the estate or personal representative of Grantee without regard to whether specific reference to them is contained in a particular provision of this Agreement.

(m) Notice.

Any notice required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given when delivered personally or by courier, or sent by certified or registered mail, postage prepaid, return receipt requested, duly addressed to the party concerned at the address indicated below or to such changed address as such party may subsequently by similar process give notice of:

If to the Company:

By Post:

XL Group plc
1 Hatch Street Upper
Dublin 2
Ireland

Attn.: General Counsel

If to Grantee:

At the Grantee's most recent address shown on the Company's corporate records, or at any other address which Grantee may specify in a notice delivered to the Company in the manner set forth herein.

(n) Section 409A.

It is intended that this Agreement will comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and any regulations and guidelines promulgated thereunder (collectively, "Section 409A"), to the extent the Agreement is subject thereto, and the Agreement shall be interpreted on a basis consistent with such intent. Notwithstanding any provision to the contrary in this Agreement, if Grantee is deemed on the date of his or her "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Company to be a "specified employee" (within the meaning of Treas. Reg. Section 1.409A-1(i)), then with regard to any payment that is considered deferred compensation under Section 409A payable on account of a "separation from service" that is required to be delayed pursuant to Section 409A(a)(2)(B) of the Code (after taking into account any applicable exceptions to such requirement), such payment shall be made on the date that is the earlier of (i) the expiration of the six (6)-month period measured from the date of Grantee's "separation from service," or (ii) the date of Grantee's death (the "Delay Period"). Upon the expiration of the Delay Period, all payments delayed pursuant to this paragraph (whether they would have otherwise been payable in a

single sum or in installments in the absence of such delay) shall be paid to Grantee in a lump sum and any remaining payments due under this Agreement shall be paid in accordance with the normal payment dates specified for them herein. Notwithstanding any provision of this Agreement to the contrary, for purposes of any provision of this Agreement providing for the payment of any amounts upon or following a termination of employment that are considered deferred compensation under Section 409A, references to Grantee's "termination of employment" (and corollary terms) with the Company shall be construed to refer to Grantee's "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Company. Whenever payments under this Agreement are to be made in installments, each such installment shall be deemed to be a separate payment for purposes of Section 409A.

(o) Clawback Policy.

Notwithstanding any term of these Performance Units to the contrary, the Company reserves the right to cancel these Performance Units or require the return of Shares received under these Performance Units (or the cash value of the Shares, as determined by the Board in its sole discretion) to the extent provided under, and in accordance with, the Company's Clawback Policy as in effect from time to time, which Policy is incorporated into this Agreement by reference. As a condition to the grant of these Performance Units, the Employee agrees that he or she will be subject to, and comply with the terms of, the Company's Clawback Policy as in effect from time to time as it applies to any compensation, including equity awards, bonus and other incentive awards.

(p) Governing Law.

This Agreement shall be governed by and construed in accordance with the laws of the State of New York without reference to the principles of conflict of laws.

Exhibit 10.9

PERFORMANCE UNIT AGREEMENT

AGREEMENT, by and between XL Group plc, an Irish company (“the Company”), and You (the “Grantee”) is effective as of ________, 201__.

WHEREAS, Grantee is an employee of the Company and/or any of its subsidiaries (collectively called the “Company”); and

WHEREAS, the Company regards Grantee as a valuable employee of the Company and has determined it to be in the interest of the Company to grant to Grantee an award of Performance Units under the Company’s 1991 Performance Incentive Program;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein, and for other good and valuable consideration, the Company and Grantee agree as follows:

(a) Grant of Performance Units.

The Company has granted to Grantee an award (the “Award”) on ________, 201_ (the “Grant Date”) with a target amount of Performance Units (the “Target Amount”), subject to the restrictions set forth below (the “Performance Units”). The percentage of the Award that will be earned will range from 0% to 200% of the Target Amount, depending on achievement of the performance goals for the Performance Period established by the Management Development and Compensation Committee of the Board of Directors (the “Committee”). Notwithstanding the foregoing, the Committee, in its independent judgment, reserves the authority to increase or decrease the payout amount, including the authority to make no payout at all—regardless of the actual achievement of performance goals—in response to economic conditions at the time of payout, better or lower than expected performance in other important business/financial measures, or any other reason. The Award is granted pursuant to the terms of the Company’s 1991 Performance Incentive Program, which is incorporated by reference herein. Any capitalized terms used herein and not defined shall have the meanings given to those terms in the 1991 Performance Incentive Program.

(b) Vesting.

Except as otherwise provided in paragraph (e) below, (i) the percentage of the Award that will be earned will be determined following the end of the Performance Period based on the level of achievement of the performance goals set forth as adjusted (if applicable) by the Committee (the “Earned Award”), and (ii) the Earned Award will vest only if Grantee remains continuously employed by the Company through the Payment Date. The Payment Date will be after January 1 of the calendar year immediately following the end of the Performance Period and on or prior to March 15 of such calendar year, as determined by the Company. Except as otherwise set forth in paragraph (e) below, the portion of the Award, if any, that is not vested immediately following termination of Grantee’s employment shall be immediately forfeited. The Performance Period will begin on January 1, 201_ and end on December 31, 201_.

(c) Distribution of Stock.

On the Payment Date in accordance with paragraph (b) above, the Company shall distribute to Grantee a number of Ordinary Shares, US$0.01 par value per share, of the Company (the “Shares”) equal to the number of Performance Units, if any, that vested. To the extent applicable, Shares shall be distributed as set forth in paragraph (e) below. Prior to the Company’s delivery of the Shares, Grantee shall pay to the Company an amount of cash equal to the par value for each of such Shares delivered.

(d) Rights and Restrictions.

The Performance Units shall not be transferable other than pursuant to will or the laws of descent and distribution. Prior to vesting of the Performance Units and delivery of the Shares to Grantee, Grantee shall not have any rights and privileges of a shareholder as to the Shares subject to the Award. Specifically, Grantee shall not have the right to receive dividends or the right to vote such Shares prior to vesting of the Award and delivery of the Shares.

(e) Early Termination.

(i) Death of Grantee. In the event Grantee dies while in the employment of the Company, the following portion of the Award will vest and Shares equal to the number of such vested Performance Units will be distributed at the time set forth in this clause (i) below: (x) the percentage of the Award earned based upon the extent, if any, of attainment of the performance goals for the Award as measured at the earlier of the end of the calendar year during which such death occurs or the end of the Performance Period, multiplied by (y) a fraction, the numerator of which is the number of days during the Performance Period ending on the date of Grantee’s death and the denominator of which is the number of days in the Performance Period. Such Shares will be distributed to Grantee’s estate or beneficiary on the earlier of: (x) the date after January 1 of the calendar year immediately following the calendar year during which such death occurs and on or prior to March 15 of such calendar year, as determined by the Company, or (y) the Payment Date described pursuant to paragraphs (b) and (c) above.

(ii) Termination of Employment Due to Permanent Disability. In the event Grantee’s employment with the Company is terminated by the Company by reason of Grantee’s Permanent Disability, the following portion of the Award will vest and Shares equal to the number of such vested Performance Units will be distributed at the time set forth in this clause (ii) below: (x) the percentage of the Award earned based upon the extent, if any, of attainment of the performance goals for the Award as measured at the earlier of the end of the calendar year during which such termination of employment occurs or the end of the Performance Period, multiplied by (y) a fraction, the numerator of which is the number of days during the Performance Period ending on the date of Grantee’s termination of employment and the denominator of which is the number of days in the Performance Period. Such Shares will be distributed to Grantee on the earlier of: (x) the date after January 1 of the calendar year immediately following the calendar year during which such termination of employment occurs and on or prior to March 15 of such calendar year, as determined by the Company, or (y) the Payment Date described pursuant to paragraphs (b) and (c) above. For purposes hereof, “Permanent Disability” means those circumstances under which Grantee has been unable to perform his or her duties and responsibilities with the Company for at least 60 continuous days

because of physical, mental or emotional incapacity resulting from injury, sickness or disease, and will be unable to continue to perform his or her duties and responsibilities for a total of six (6) months in any twelve (12) month period because of physical, mental or emotional incapacity resulting from injury, sickness or disease; provided, however, that with respect to any Grantee who has entered into an employment agreement with the Company, term of which has not expired at the time a determination concerning Permanent Disability is to be made, Permanent Disability shall have the meaning attributed in such employment agreement.

(iii) Termination of Employment Due to Retirement. In the event Grantee's employment with the Company is terminated due to his or her Retirement, the following portion of the Award will vest and Shares equal to the number of such vested Performance Units will be distributed at the time set forth in this clause (iii) below: (x) the percentage of the Award earned based upon the extent, if any, of attainment of the performance goals for the Award as measured at the earlier of the end of the calendar year during which such Retirement occurs or the end of the Performance Period, multiplied by (y) a fraction, the numerator of which is the number of days during the Performance Period ending on the date of Grantee's Retirement and the denominator of which is the number of days in the Performance Period. Such Shares will be distributed to Grantee on the earlier of: (x) the date after January 1 of the calendar year immediately following the calendar year during which such termination of employment occurs and on or prior to March 15 of such calendar year, as determined by the Company, or (y) the Payment Date described pursuant to paragraphs (b) and (c) above. For purposes hereof "Retirement" shall mean the termination of employment by Grantee if (i) such termination of employment occurs after (x) Grantee has reached age 55, and (y) the sum of Grantee's age and full years of continuous service with the Company equals or exceeds 65, and (ii) a determination has been made by the Committee, in its sole discretion, that it is appropriate under the circumstances (taking into account, without limitation, the intention of Grantee with respect to future employment) for the Performance Units to become vested at the time of such termination of employment.

(iv) Termination Not For Cause. In the event Grantee's employment with the Company is terminated by the Company not for Cause (as defined below), the following portion of the Award will vest and Shares equal to the number of such vested Performance Units will be distributed at the time set forth in this clause (iv) below: (x) the percentage of the Award earned based upon the extent, if any, of attainment of the performance goals for the Award as measured at the earlier of the end of the calendar year during which such termination of employment occurs, or the end of the Performance Period, multiplied by (y) a fraction, the numerator of which is the number of days during the Performance Period ending on the date of such termination of employment and the denominator of which is the number of days in the Performance Period. Such Shares will be distributed to Grantee on the earlier of: (x) the date after January 1 of the calendar year immediately following the calendar year during which such termination of employment occurs and on or prior to March 15 of such calendar year, as determined by the Company, or (y) the Payment Date described pursuant to paragraphs (b) and (c) above. For purposes hereof, "Cause" shall mean (I) conviction of Grantee of a felony involving moral turpitude or dishonesty; (II) Grantee, in carrying out his or her duties for the Company, has been guilty of (A) gross neglect or (B) willful misconduct; provided, however, that any act or failure to act by Grantee shall not constitute Cause for this purpose if such act or

failure to act was committed, or omitted, by Grantee in good faith and in a manner reasonably believed to be in the overall best interests of the Company; (III) Grantee's continued willful refusal to obey any appropriate policy or requirement duly adopted by the Company and the continuance of such refusal after receipt of notice; or (IV) Grantee's sustained failure to perform the essential duties of Grantee's role after receipt of notice. The determination of whether Grantee acted in good faith and that he or she reasonably believed his or her action to be in the Company's overall best interest will be in the reasonable judgment of the General Counsel of the Company or, if the General Counsel shall have an actual or potential conflict of interest, the Committee.

(v) Change of Control. In the event there is a Change of Control of the Company during the period that Grantee is employed by the Company, the Award will vest at target (100%) and Shares equal to the number of such vested Performance Units will be distributed to Grantee at the time of the Change of Control.

(f) Status of Shares.

Upon issuance, the Shares shall rank equally in all respects with the other outstanding Shares of the Company and shall be fully paid.

(g) Adjustments for Recapitalizations, Etc.

In the event of any alteration or re-organization whatsoever taking place in the capital structure of the Company whether by way of capitalization of profits or reserves, capital distribution, rights issue, consolidation or sub-division of Shares, the conversion of one class of share to another or reduction of capital or otherwise, the number of Shares subject to this Award shall be proportionately adjusted by the Board on an equitable basis.

(h) Obligations as to Capital.

The Company agrees that it will at all times maintain authorized and unissued share capital sufficient to fulfill all of its obligations under this Agreement.

(i) Dividend Equivalents.

Dividend equivalents will not be paid with respect to Grantee's Performance Unit Award.

(j) Withholding.

Grantee agrees to make appropriate arrangements with the Company for satisfaction of any applicable income tax withholding requirements or social security or similar requirements arising out of the Award. Such withholding tax obligations may be satisfied by withholding Shares from this Award; provided that the amount of tax withholding to be satisfied by withholding Shares shall be limited to the minimum amount of taxes, including employment taxes, required to be withheld under applicable law.

(k) Transfer Restrictions.

Grantee shall comply with the Company's stock ownership guidelines as in effect from time to time.

(l) References.

References herein to rights and obligations of Grantee shall apply, where appropriate, to the estate or personal representative of Grantee without regard to whether specific reference to them is contained in a particular provision of this Agreement.

(m) Notice.

Any notice required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given when delivered personally or by courier, or sent by certified or registered mail, postage prepaid, return receipt requested, duly addressed to the party concerned at the address indicated below or to such changed address as such party may subsequently by similar process give notice of:

If to the Company:

By Post:

XL Group plc
1 Hatch Street Upper
Dublin 2
Ireland

Attn.: General Counsel

If to Grantee:

At the Grantee's most recent address shown on the Company's corporate records, or at any other address which Grantee may specify in a notice delivered to the Company in the manner set forth herein.

(n) Section 409A.

It is intended that this Agreement will comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and any regulations and guidelines promulgated thereunder (collectively, "Section 409A"), to the extent the Agreement is subject thereto, and the Agreement shall be interpreted on a basis consistent with such intent. The parties hereto specifically intend that any payments and benefits under this Agreement will not be considered deferred compensation for purposes of Section 409A due to Treas. Reg. Section 1.409A-1(b)(4) or another applicable exception. However, notwithstanding any provision to the contrary in this Agreement, if Grantee is deemed on the date of his or her "separation from service" (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Company to be a "specified employee" (within the meaning of Treas. Reg. Section 1.409A-1(i)), then with regard to any payment that is

considered deferred compensation under Section 409A payable on account of a “separation from service” that is required to be delayed pursuant to Section 409A(a)(2)(B) of the Code (after taking into account any applicable exceptions to such requirement), such payment shall be made on the date that is the earlier of (i) the expiration of the six (6)-month period measured from the date of Grantee’s “separation from service,” or (ii) the date of Grantee’s death (the “Delay Period”). Upon the expiration of the Delay Period, all payments delayed pursuant to this paragraph (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid to Grantee in a lump sum and any remaining payments due under this Agreement shall be paid in accordance with the normal payment dates specified for them herein. Notwithstanding any provision of this Agreement to the contrary, for purposes of any provision of this Agreement providing for the payment of any amounts upon or following a termination of employment that are considered deferred compensation under Section 409A, references to Grantee’s “termination of employment” (and corollary terms) with the Company shall be construed to refer to Grantee’s “separation from service” (within the meaning of Treas. Reg. Section 1.409A-1(h)) with the Company. Whenever payments under this Agreement are to be made in installments, each such installment shall be deemed to be a separate payment for purposes of Section 409A.

(o) Clawback Policy.

Notwithstanding any term of these Performance Units to the contrary, the Company reserves the right to cancel these Performance Units or require the return of Shares received under these Performance Units (or the cash value of the Shares, as determined by the Board in its sole discretion) to the extent provided under, and in accordance with, the Company’s Clawback Policy as in effect from time to time, which Policy is incorporated into this Agreement by reference. As a condition to the grant of these Performance Units, the Employee agrees that he or she will be subject to, and comply with the terms of, the Company’s Clawback Policy as in effect from time to time as it applies to any compensation, including equity awards, bonus and other incentive awards.

(p) Governing Law.

This Agreement shall be governed by and construed in accordance with the laws of the State of New York without reference to the principles of conflict of laws.

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(Chapter 98, Title 15 U.S.C. SS. 7241)

I, Michael S. McGavick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of XL Group plc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: August 6, 2010

/s/ MICHAEL S. MCGAVICK

Michael S. McGavick
Chief Executive Officer
XL Group plc

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(Chapter 98, Title 15 U.S.C. SS. 7241)

I, Irene M. Esteves, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of XL Group plc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 6, 2010

/s/ IRENE M. ESTEVES

Name: Irene M. Esteves
Title: Executive Vice President and Chief Financial Officer
XL Group plc

Exhibit 32

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Chapter 63, Title 18 U.S.C. SS.SS. 1350(a) and (b))

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chapter 63, Title 18 U.S.C. ss.ss. 1350(a) and (b)), each of the undersigned hereby certifies that the Quarterly Report on Form 10-Q for the period ended June 30, 2010 of XL Group plc (the "Company") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 6, 2010

/s/ MICHAEL S. MCGAVICK

MICHAEL S. McGAVICK
CHIEF EXECUTIVE OFFICER
XL GROUP PLC

Dated: August 6, 2010

/s/ IRENE M. ESTEVES

IRENE M. ESTEVES
EXECUTIVE VICE PRESIDENT,
CHIEF FINANCIAL OFFICER
XL GROUP PLC

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to XL Group plc and will be retained by XL Group plc and furnished to the Securities and Exchange Commission or its staff upon request.