S&P Global Ratings

Research

XLIT Ltd. And Its Operating Subsidiaries

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SACP* Assessments					SACP*			Support			Ratings
Anchor	a+	+	Modifiers	0	=	a+	+	0		=	Financial Strength Rating: A+/Positive/--
Business Risk: Very Strong			ERM and Management	0		Liquidity	0	Group Support	0		Holding Company Rating: A-/Positive/--
Financial Risk: Strong			Holistic Analysis	0		Sovereign Risk	0	Gov't Support	0		

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Very Strong

- Very strong competitive position bolstered by the transformational acquisition of Catlin in 2015, which enhanced scale and product offering
- Prospective results expected to improve as the company progresses through the integration phase, reflecting historical underwriting performance of individual entities, synergies, and improved market standing
- Intermediate insurance industry and country risk assessment (IICRA) reflects low country risk and moderate industry risk for property/casualty (P/C) insurance and reinsurance sectors. A substantial portion of group's business faces sector headwinds and soft pricing conditions

Financial Risk Profile: Strong

- Extremely strong capital and earnings, supported by good operating results and redundant capital adequacy at the 'AAA' stress level
- High risk position because of potential volatility of capital and earnings arising from exposure to property catastrophe, terrorism, and other severity risks
- Predominant insurance risks, with reserving risk using the bulk of economic capital, followed by market risk and natural catastrophe risk
- Strong financial flexibility due to diverse sources of capital and prospective improvement in fixed-charge coverage despite moderate leverage

Other Factors

- Strong enterprise risk management (ERM) framework plays a significant role in value-creation strategy
- Satisfactory management and governance with a focus on realizing synergies from successfully integrating Catlin and benefitting from enhanced scale and market presence
- Very Strong business risk profile and Strong financial risk profile leading to a possible anchor of either 'aa-' or 'a+'; we assigned the latter reflecting the operational risk posed by ongoing integration with the Catlin Group Ltd. acquisition and its ability to successfully leverage the larger platform

Factors Specific to the Holding Company

As we do with most of its Bermuda-based peers, we rate Cayman Islands-based XLIT Ltd. (XL) two notches below its operating subsidiaries, because of structural subordination reflecting the holding company's dependence on dividends from its operating subsidiaries. XL's operating companies are domiciled in different countries with the majority of capital held in Bermuda, which provides the group with significant regulatory flexibility in upstreaming dividends to the holding company.

Outlook: Positive

The positive outlook reflects a one-in-three chance that we could raise the ratings by one-notch over next 12 months. Raising the rating would require XL to integrate Catlin successfully with minimal business loss, realize business and cost synergies from having a larger platform, and optimize its portfolio toward higher-margin businesses through underwriting actions, all of which would enhance its market position and underlie its ability to generate sustainable and strong earnings that are in line with our expectations and those of its peers. Other contributing factors would include XL's ability to sustain a fixed-charge coverage ratio comfortably above 5x, maintain financial leverage less than 30%, maintain 'AAA' capital redundancy, and ERM function that is suited for the company's complex risk profile.

Downside scenario

We could affirm the current ratings and revise the outlook to stable if XL does not meet our performance expectations, particularly if there is a significant shortfall in underwriting results (absent a significant catastrophe, in which case we would expect XL's results to be consistent with the industry's as a whole); if the integration of Catlin faces setbacks that materially affect the consolidated group performance and/or challenges XL to fully leverage its platform; if the coverage ratio doesn't improve materially to above 5x sustainably; or if the combined ERM program is not holistically integrated to support a more-complex risk profile. We may also consider affirming the current ratings if XL were to experience unexpected adverse events such as material realized investment losses, large underwriting losses, or other material charges outside of the group's risk tolerances.

Base-Case Scenario

Macroeconomic Assumptions

- Global credit conditions are generally mixed around the world--broadly favorable in the U.S., Europe inching toward mild improvement, while Asia-Pacific and Latin America are less favorable.
- Real U.S. GDP growth of about 1.6% in 2016 and around 2.4% for 2017-2018.
- Long-term real-interest rates can stay relatively lower longer. We expect the 10-year U.S. treasury-note yield around 1.8% in 2016 rising in 2017 and 2018 in the range of 2.2%-2.5%.
- U.S. core Consumer Price Index of 2.2% in 2016 and around 2.0% in 2017-2018.
- U.S. unemployment rate steadily dropping over the next few years to 4.8% in 2016 and around 4.5% in 2017-2018.

Company-Specific Assumptions

- Gross premiums written (GPW) to grow substantially in 2016 owing to the Catlin acquisition and thereafter to grow in the low-to-mid single digits, benefitting from enhanced market presence. Net premiums growth to be lower due to higher reinsurance utilization.
- Combined ratio including corporate expenses to be close to break-even for 2016, assuming no large losses for the remainder of the year, and to improve in 2017, assuming normalized cat losses benefitting from lower integration costs and synergies.
- Capital adequacy to remain redundant at the 'AAA' level in 2016-2018.
- Financial leverage to remain less than 30% with potential for some reduction in 2018 from maturing debt.
- Fixed-charge coverage to remain under pressure in 2016 but improve prospectively, reflecting gains in underwriting results.

Key Metrics

	--Year ended Dec. 31--				
	2018*	**2017***	**2016***	**2015**	**2014**
Gross premiums written growth (%)	1-4	1-4	21-24	35.6	4.6
P/C net combined ratio (%)	94-97	94-97	<=100	97.7	91.9
S&P Global Ratings capital adequacy/Redundancy	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong
Financial leverage(%)	25-30	25-30	25-30	28.3	21.7
Fixed-charge coverage (x)	5-6	4-5.5	around 3	3.6	2.6

*Forecast data reflect S&P Global Ratings' base-case assumptions. Note--P/C net combined ratio inclusive of corporate expenses.

Company Description: Diversified Global Multiline Insurer

XL Group Ltd., through its subsidiaries, is a global insurance and reinsurance company providing property, casualty, and specialty products to industrial, commercial, and professional firms, insurance companies, and other enterprises on a worldwide basis. With the acquisition of Catlin in 2015, XL has created a stronger global franchise in both the insurance and reinsurance sectors, which has enhanced its scale and product offerings. The combined entity wrote about $11 billion in premiums in full year 2015, and had a capital base of $16.3 billion and shareholders' equity of $11.7 billion.

Business Risk Profile: Very Strong

XL's very strong business risk profile reflects our assessment of its enhanced market position in both the insurance and reinsurance sectors and its diversification by regions and products.

Insurance industry and country risk: Globally diverse insurance and reinsurance operations in major stable economies

Our overall IICRA of XL is intermediate, reflecting low country risk and moderate industry risk for its P/C insurance and reinsurance. XL's global risk exposures are mainly in major markets such as the U.S., U.K., Germany, France, and Canada, providing it with relative stability vis–à–vis primary re/insurers that are more exposed to specific country risks. XL is mostly exposed to developed markets that are typically characterized by low risks, including political environment, financial system, payment culture, and rule of law. Our view of the global P/C reinsurance sector stems primarily from our negative assessment of the industry's exposure to property catastrophe volatility and the relatively moderate operational barriers to entry that materially expose P/C reinsurers to competition from existing players and new entrants.

Table 1

Industry And Country Risk

Insurance sector	IICRA	Business mix (%)
United States P&C	Intermediate Risk	32.65
Global P&C Reinsurance	Intermediate Risk	27.74
United Kingdom P&C	Intermediate Risk	23.37
Germany P&C	Low Risk	2.99
Other countries P/C	N/A	13.25
Weighted average IICRA	Intermediate Risk	100.00

IICRA--Insurance industry country risk assessment.

Competitive position: Very strong with globally diversified insurance and reinsurance platforms

XL has strengthened its competitive position with the acquisition of Catlin. We believe the combination of the two companies bolsters XL's specialty business through expansion at Lloyd's via Catlin's leadership role, and foster growth in Catlin's network via XL's greater global footprint. The combined entity, we believe, will benefit from increased market presence, providing opportunities to increase its client penetration and tap into new opportunities as well as the ability to weather soft sector conditions. Through first-half 2016, there was minimal business loss (less than 1% of expiring business) specifically attributable to the acquisition of Catlin.

Table 2

XL Group -- Competitive Position							
	--Nine Months Ended Sept. 30--		--Year ended Dec. 31--				
(Mil.$)	**2016**	**2015**	**2015**	**2014**	**2013**	**2012**	**2011**
Gross premiums written (GPW)	10,811.2	8,375.8	10,978.9	8,094.9	7,741.1	7,530.9	7,292.8
Change in GPW (%)	29.1	31.0	35.6	4.6	2.8	3.3	9.3
Net premiums written (NPW)	7,926.5	6,060.6	7,951.1	5,944.8	6,199.4	6,281.5	5,795.8
Change in net premiums written NPW (%)	30.8	28.4	33.7	(4.1)	(1.3)	8.4	7.7
Reinsurance utilization - premiums written (%)	26.7	27.6	27.6	26.6	19.9	16.6	20.5
Business segment (% of GPW)							
P/C insurance	67.6	74.6	78.7	77.0	71.3	68.6	66.2
P/C reinsurance	32.4	25.4	21.3	23.0	24.5	26.7	28.4
Life reinsurance	0.0	0.0	0.0	0.0	4.2	4.7	5.4

XL's very strong global market presence in P/C insurance and reinsurance reflects its underwriting expertise in specialized industry segments, its global scale, and its ability to provide large coverage limits, allowing the company to reach and serve its global clients better than its less-diversified competitors.

Insurance. XL Insurance (XLI) is a leading global provider of large corporate and specialty products. XLI transformed to a global commercial company from a niche excess player through acquisitions and organic growth. The Catlin acquisition has significantly enhanced the group's offerings, global commercial footprint, product breadth, and depth. It has also reduced its tail risk and reliance on the Americas region, with more than half of its GPW from non-U.S. operations. Based on 2016 pro forma GPW, XLI generates 33% from casualty lines; 25% from specialty; 23% from energy, property, and construction; and 19% from professional lines.

XLI recently announced the reorganization of its business into three groups effective Jan. 1, 2017, aligning with distribution and client focus: Global Lines, International, and North America. The company has the No. 1 position in the Lloyd's market with about 9% market share and leading market share in key specialty lines as a result. Furthermore, XLI's business generated outside the top-six brokers increased in 2016 as a result of the Catlin acquisition. Currently, XLI is estimated to be among the top six largest insurance markets for Willis, Marsh, and Aon. Pricing was negative across most lines of business with the overall rate change for the segment down by mid-single digits for year-to-date third-quarter 2016 as competitive market conditions persisted but the segment saw organic growth adjusting for acquisition, foreign exchange, and underwriting actions.

Reinsurance. XL Reinsurance (XLR) is a leading specialist and a global reinsurer with a recognized brand. After the merger with Catlin, XLR strengthened its market position and became the 11th-largest reinsurer in the world based on 2014 pro forma net reinsurance premiums written (about 12% of GPW per company estimates for 2015), according to our 2015 Global Reinsurance Highlights. Currently, XLR is organized by region, each of which has its own underwriting, actuarial, claims, and local operating responsibilities.

Based on 2015 pro forma GPW, XLR generates 30% from property catastrophe lines of business, 23% from property treaty, 22% from casualty, 5% from crop insurance, 5% from credit surety, 4% from marine and energy, and the remainder from other lines of business including property facultative, whole account, accident and health, et cetera. In addition, the majority of its GPW is generated from outside the U.S. Year-to-date third-quarter 2016, GPW increased by 66.4% primarily due to the Catlin acquisition and about 7% adjusting for that and foreign exchange. The 23.2% growth in third-quarter 2016 highlights the traction and opportunities the combined business is seeing, though these are partially offset by pricing declines of about 2.5% reflecting sector headwinds.

XLR is well positioned to increase its line size with existing clients, increase cross-selling for large accounts, increase its share in new lines, and become a strategic partner with its cedants. XLR should benefit from many cedants consolidating their reinsurance panel with a smaller group of major reinsurers. This trend will help it navigate the current challenging reinsurance environment, which is witnessing year-over-year pricing declines and higher ceding commissions.

In 2017, XL will continue to focus on the aspects of integration of Catlin, which is mostly complete, further strengthening its clients' relationships, and realizing synergies of about $300 million in expense savings on a run-rate basis. With its newfound scale, XL is expected to become more resilient in the face of key market drivers such as globalization, changes in regulation, alternative capital, relevance and scale, and broker dynamics. We expect XL's top line to increase about low-to-mid single digits and improve its underwriting performance though portfolio optimization, underwriting discipline, and a centralized reinsurance purchase approach.

Financial Risk Profile: Strong

XL's strong financial risk profile reflects sustained extremely strong capital adequacy, partially offset by its high-risk position.

Capital and earnings: Extremely strong

XL's capital and earnings are expected to remain extremely strong as a result of capital adequacy that is redundant at the 'AAA' stress level over the next two-to-three years, supported by robust operating results. With a larger capital base post-merger of $16.2 billion as of Sept. 30, 2016, and benefiting from a diversified geographic and product base, XL should potentially be able to absorb large losses. Overall, insurance presents the greatest risk to economic capital at various confidence levels for XL, with reserving risk consuming the bulk of economic capital, followed by premium, market risk, and natural catastrophe risk.

Table 3

XL Group -- Capitalization Statistics

	--Nine Months Ended Sept. 30--		--Year ended Dec. 31--				
(Mil. $)	**2016**	**2015**	**2015**	**2014**	**2013**	**2012**	**2011**
Common shareholders' equity (including non-controlling interests)	11,686.1	11,993.7	11,747.7	10,091.3	10,004.8	10,510.1	9,411.7
Change in common shareholders' equity (%)	(2.6)	21.9	16.4	0.9	(4.8)	11.7	(2.1)
Total reported capital	16,239.9	16,627.4	16,299.4	13,098.3	13,612.5	13,529.2	13,031.5
Change in total reported capital (%)	(2.3)	29.1	24.4	(3.8)	0.6	3.8	(0.3)

Table 4

XL Group -- Earnings Statistics

	--Nine Months Ended Sept. 30--		--Year ended Dec. 31--				
(Mil. $)	**2016**	**2015**	**2015**	**2014**	**2013**	**2012**	**2011**
Total revenue	7,979.6	6,519.6	9,132.0	6,857.3	7,307.3	7,154.6	6,869.6
EBIT adjusted	649.4	933.2	1,107.7	619.2	1,103.9	807.5	425.1
EBITDA adjusted	735.4	983.9	1,200.0	675.3	1,160.1	864.8	474.9
Net income (attributable to all shareholders)	260.5	1,078.8	1,313.3	268.8	1,136.6	730.4	(403.9)
Return on revenue (%)	8.1	14.3	12.1	9.0	15.1	11.3	6.2
Return on reported shareholders' equity (%)	2.5	11.5	10.5	2.4	9.8	6.5	(3.8)
P/C: net expense ratio (%)	32.3	33.4	33.6	31.2	30.5	30.9	30.9
P/C: net loss ratio (%)	61.6	58.5	58.4	57.0	62.0	65.3	76.6
P/C: net combined ratio (%)	93.9	91.9	92.0	88.2	92.5	96.3	107.5
(Favorable)/unfavorable reserve development (%)	(2.7)	(3.2)	(3.8)	(4.5)	(4.8)	(5.5)	(5.3)
P/C: net accident year combined ratio (%)	96.6	95.1	95.8	92.6	97.3	101.7	112.8
P/C: net combined ratio (%) including corporate expenses*	98.9	97.4	97.7	91.9	95.8	99.6	110.3
Combined ratio by segment (As reported) (%):							
P/C insurance	96.4	96.4	96.9	94.4	97.1	100.6	111.8
P/C reinsurance	88.8	81.8	81.0	73.3	81.4	86.9	97.8
Catlin stand-alone	N/A	N/A	N/A	93.4	91.3	94.4	105.0

*Corporate expenses are allocated in proportion of gross premiums written. N/A--Not applicable.

XL and Catlin each generated healthy non-life underwriting performance prior to the acquisition. Excluding 2011, which was heavily affected by industrywide catastrophe losses, both companies operated at combined ratios of less than 100%, which we believe were in line with the sector on a pro forma basis. XL operating performance declined in 2016 as integration costs coupled with higher cat losses, underwriting actions, and weaker market conditions pushed up both expense and loss ratios. However, looking at period-over-period performance of segments, the accident year loss ratio excluding cat losses and expense ratios are trending in the right direction. The integration expenses should trail off in 2017 and the synergies should start to come through more clearly (some of which are already showing in segment operating expenses and those gains will also extend to corporate expenses). Furthermore, underwriting actions, pricing analytics, and underwriting discipline along with a centralized approach to reinsurance purchase to reduce volatility and gain efficiencies can potentially improve or maintain accident-year loss ratio over the near term. As a result, we expected an improved run-rate operating performance.

Overall, we believe XL's reserves are adequate. A prudent reserving process, conservative attitude toward reserve releases, and active monitoring of actual versus expected loss emergence contribute to our view. We view favorably XL's detailed appraisal of the legacy books of both XL and Catlin prior to the merger as it provides an in-depth understanding of the similarities and differences between the reserve liabilities and methodologies of both companies. Both legacy XL and legacy Catlin had a prudent reserving strategy, which carries to the combined group. This is evident from their reserve redundancies and more-favorable reserve developments as compared with their peers'. Furthermore, XL is committed to improving data quality and has set up a data-governance structure including appointment of a chief data officer, which should add necessary oversight to the integration of the two companies.

Table 5

XL Group -- Reserve Development	--Nine months ended Sept. 30--		--Year ended Dec. 31--				
	2016	2015	2015	2014	2013	2012	2011
XL*							
(Favorable)/unfavorable reserve development (mil. $)	(195.6)	(185.5)	(306.6)	(255.1)	(289.9)	(315.9)	(284.9)
Reserve development effect on combined ratio (%)	(2.7)	(3.2)	(3.8)	(4.5)	(4.8)	(5.5)	(5.3)
Catlin stand-alone							
(Favorable)/unfavorable reserve development (mil. $)				(120.0)	(167.0)	(139.0)	(103.0)
Reserve development effect on combined ratio (%)				(2.9)	(4.2)	(3.9)	(2.9)

*2015 & 2016 figures are as reported for the combined entity; 2014 & prior for XL stand--alone.

XL will be managing its capital actively through share buybacks, which totaled $905 million year-to-date third quarter, as the price-to-tangible book value was running around 1.0x for the better part of the year, making buybacks attractive. XL views share buybacks as an efficient capital-management tool, but deploying excess capital within attractive P/C opportunities remains a priority and management's preference.

In our base-case scenario, we project XL to generate a combined ratio (including corporate expenses) close to breakeven for 2016, assuming up to $200 million of net impact from Hurricane Matthew and no large losses for the remainder of the year; and 94%-97% for 2017-2018, assuming normalized cat load of 5 points with progressive improvement year-over-year. While the underwriting performance is expected to improve, considering the interest rate environment and new money rates, we expect investment income to remain depressed, keeping operating returns on equity low.

Risk position

XL has a high-risk position, stemming from the potential volatility in its capital and earnings because of its exposure to property catastrophe, terrorism, and other severity risks.

Table 6

XL Group -- Natural Property Catastrophe Losses Impact On The Combined Ratios	--Nine Months Ended Sept. 30--						
XL*	**2016**	**2015**	**2015**	**2014**	**2013**	**2012**	**2011**
P/C net premiums earned	7,312	5,789	8,164	5,717	6,014	5,766	5,327
Catastrophe net losses	408	107	213	113	317	464	761
Effect on combined ratio (%)	5.6	1.8	2.6	2.0	5.3	8.1	14.3
Catlin Stand-alone				**2014**	**2013**	**2012**	**2011**
Net premiums earned				4,160	3,948	3,604	3,612
Catastrophe net losses				85	156	225	678
Effect on combined ratio (%)				2.0	4.0	6.2	18.8

*2015 & 2016 figures are as reported for the combined entity; 2014 & prior for XL stand-alone.

Table 7

XL Group -- Risk Position							
	--Nine Months Ended Sept. 30--		--Year ended Dec. 31--				
(Mil. $)	**2016**	**2015**	**2015**	**2014**	**2013**	**2012**	**2011**
Total invested assets (including life funds withheld assets)	42,180.9	42,534.1	41,603.1	35,893.1	36,191.8	36,598.6	35,549.4
Change in total invested assets (%)	(0.8)	17.2	15.9	(0.8)	(1.1)	3.0	0.3
Net investment income	631.0	656.9	872.4	918.6	957.7	1,012.3	1,137.8
Realized capital gains/(losses)	(492.5)	177.0	204.7	(255.0)	234.0	77.8	(172.8)
Net investment yield (%)	2.0	2.2	2.3	2.5	2.6	2.8	3.2
Portfolio composition (% of general account invested assets)							
Cash and short-term investments (%)	9.6	9.3	9.5	7.7	6.2	8.0	11.8
Bonds (%)	79.5	80.4	80.5	81.8	83.9	83.8	81.2
Equity investments (%)	7.6	7.6	7.3	8.0	7.8	6.2	5.0
Investments in affiliates (%)	1.2	0.6	0.8	1.2	0.9	0.8	0.8
Other investments (%)	2.0	2.1	1.9	1.3	1.2	1.2	1.2

The primary objectives of XL's investment strategy are to support the liabilities that arise from its operations, generate stable investment income, and build long-term book value. XL has drastically de-risked its investments and successfully brought its portfolio in line with P/C and Bermudian peers' post-crisis. It has a consistent set of risk limits informed by the organizational risk tolerance, stress testing, and well-developed risk policies around investments with escalation levels that are defined for deviations from risk limits and benchmarks.

XL's strategic asset allocation, which continues to form the foundation of the company's investment management activity post acquisition, involves continually monitoring the portfolio's risk profile and periodically rebalancing it to ensure that actual and intended risks are consistent under a controlled risk-management framework. This entails defining and controlling tolerance ranges within which the portfolio can operate, including concentration and aggregation, credit quality, liquidity, rate and spread duration, value at risk, and tracking error. XL's portfolio structure ensures its ability to hold assets to recovery with no forced sales to satisfy operating cash flow requirements at high confidence levels.

XL has successfully integrated Catlin's assets into the legacy XL investment framework, and has leveraged the best practices from each company. As of Sept. 30, 2016, XL had $42.2 billion in invested assets with $31.6 billion (excluding $4.6 billion in Life Re's funds withheld assets) invested in its fixed-maturity portfolio--mostly investment-grade bonds (97.8% of total fixed-income assets had an average rating of 'AA'). This portfolio had a duration of 3.6 years, which was shorter than its P/C loss reserves' duration. In 2016, the company reduced its structured asset holdings in response to Solvency II rules, shifting some of that to agency-mortgage-backed securities.

Financial flexibility: Strong and improving fixed-charge coverage ratio

XL's financial flexibility is strong, reflecting access to various sources of capital and expected improvement in debt serviceability. Better conditions in the financial markets since the 2008-2009 crisis and much-reduced risk in the investment portfolio have alleviated potential material investment write-downs, and have improved credit spreads and equity valuation, hence improving the company's financial flexibility as it progressed through the post-crisis years. XL's price-to-tangible book value has remained below its peak of 1.24x at the start of the year, hovering around 1.0x for the most part. The company purchased $905 million shares as of year-to-date Sept. 30, 2016. We expect the company to continue with the share-buybacks in 2017, opportunistically depending on the market valuation.

XL's fixed-charge coverage has suffered due to higher losses and expenses this year but with expected improvement in underwriting performance and potential reduction in debt load in 2018, we expect coverage ratios to improve over 2016-2018 and financial leverage to remain under 30%.

Table 8

XL Group -- Financial Flexibility

	--Nine Months Ended Sept. 30--		--Year ended Dec. 31--				
	2016	2015	2015	2014	2013	2012	2011
EBITDA fixed-charge coverage (x)	2.6	4.3	3.6	2.6	5.6	4.2	1.7
Financial leverage (incl. NPV of operating leases and pension deficit as debt) (%)	28.6	26.8	28.3	21.7	23.6	22.3	26.2

Other Assessments

Enterprise risk management: Significant role in value-creation strategy

XL's ERM program is strong, based on positive scores for all the components of our ERM evaluation (risk culture, risk controls, emerging risks management, risk models, and strategic risk management). Because XL's global footprint, mix of business (insurance and reinsurance), exposure to long-tailed liabilities, and exposure to both natural and man-made catastrophic risks could lead to significant earnings volatility, we view ERM to be of high importance to the rating. The group's key risks are reserve and catastrophe exposure from its insurance operations and elevated, although receding, operational risk related to the Catlin acquisition. XL is leveraging aspects from both legacy programs and we expect it to continue to evolve its ERM construct not only to account for the acquisition but over the long term as well, as the company views ERM as a key driver to shareholder valuation. Both legacy companies cultivated strong risk culture that continues with the combined entity. We maintain a positive view of the combined group's risk-management culture given its sound governance framework including an independent risk management function with influence in strategic decision processes, and clearly defined risk-appetite and tolerance statements that were established for the integrated group. The group actively uses its economic capital mode and has a suite of models to assess risk through multiple lenses in order to strategically assess business strategies on a risk-adjusted basis. While the majority of the integration has occurred, we still view an elevated level of risk as further elements and platforms are integrated, resource needs assessed, and integrated processes season. Although we recognize that the group has demonstrated a thorough and prudent approach toward integration, changes need to season to fully assess their effectiveness and update our view of current operational risk controls.

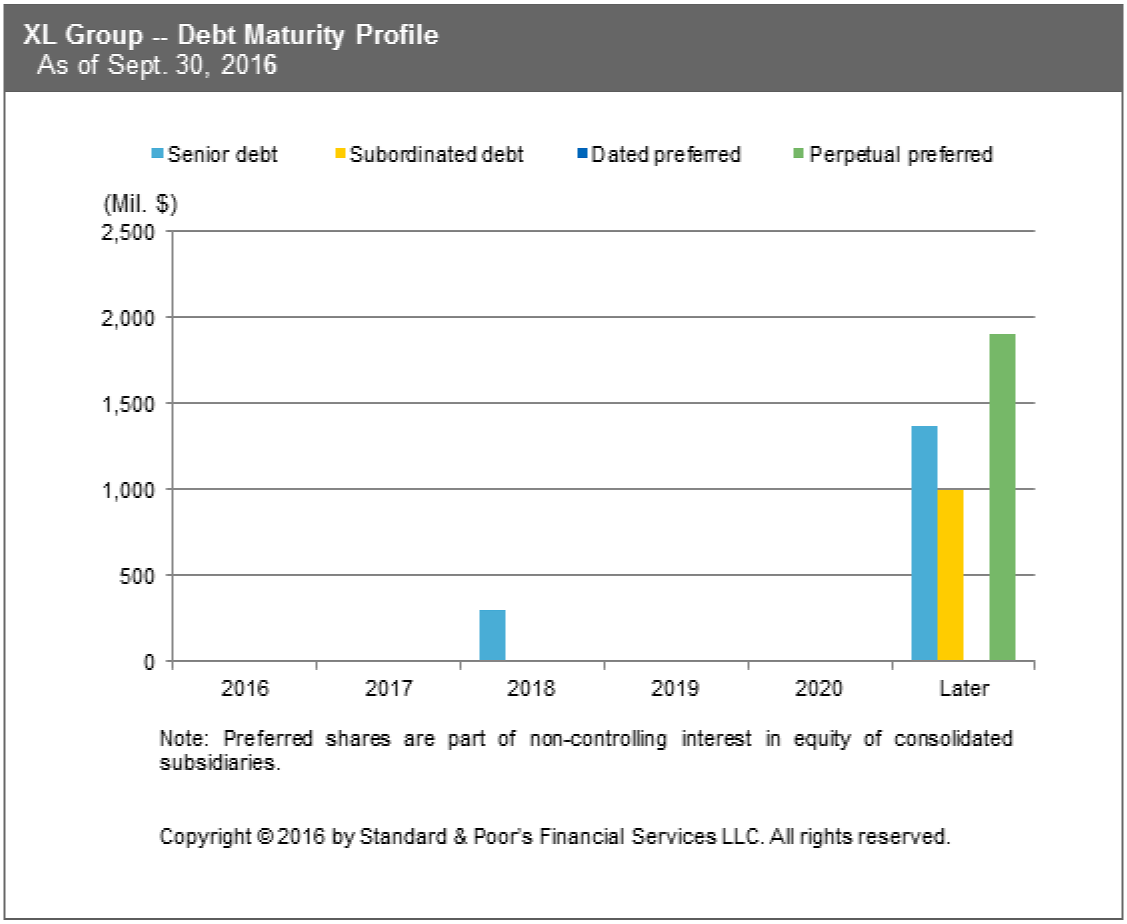
Management and Governance: Focused on integrating Catlin and leveraging its platform

We view XL's management and governance as satisfactory. Management has successfully guided the company, which was under significant pressure following the 2008 financial crisis. It divested its ownership interest in Syncora (a financial guarantee reinsurance and insurance business), deleveraged its balance sheet, and reduced the risk in its investment portfolio. In addition, in 2009 XL announced the run-off of its life reinsurance business, of which it retroceded the majority through two transactions in second-quarter 2014 and fourth-quarter 2015 (see the Accounting section). We believe the sale reflects XL's management efforts to focus on its core P/C (re)insurance business and reduce risks in its run-off operations.

In 2015, XL acquired Catlin, which significantly enhanced its franchise value and market presence. Given the size, complexity, and potential overlap between the two insurance and reinsurance portfolios, there are heightened execution and integration risks. Some of these were highlighted as the company changed its matrix organization structure that it put in place in its insurance group post acquisition. The company has now moved to reorganize its insurance business into three segments and brought both insurance and reinsurance segments under Gregory Hendrick (head of the reinsurance segment) to extract operating efficiencies and improve accountability, a positive development in our view. The company witnessed some turnover in the senior management team; however, we believe this to be less of a concern considering the depth and breadth of XL and Catlin's overall management team. While the integration risks are higher due to the inherent nature of the transaction, we believe they are partially mitigated by a strong management team comprising members from both legacy XL and Catlin teams, each of which has a strong track record in running complex companies. As well, the integration efforts by and large have been progressing well and at the tail-end, with management now looking ahead at ways to enhance the value proposition of the combined platform. A disciplined underwriting culture, focus on service, and strong risk-management capabilities should enable XL to execute its strategy.

Liquidity: Sufficient cash flows to meet business operations

XL's liquidity is exceptional, benefiting from liquid invested assets and a highly rated fixed-income portfolio. About 9% of its investments as of Sept. 30, 2016, excluding Life Re's funds withheld assets, were in short-term investments and cash and cash equivalents. We believe XL generates sufficient cash flow to meet its short- and long-term cash requirements for its operations. XL has several credit facilities it uses to support its U.S. non-admitted (re)insurance operations and capital requirements at Lloyd's. As of Sept. 30, 2016, the group had letter-of-credit facilities totaling $4.0 billion, of which $2.5 billion was utilized.



Factors Specific To The Holding Company

Following the acquisition of Catlin and determination of Solvency II equivalency for Bermuda, the company, on July 25, 2016, redomesticated to Bermuda, which already hosted its flagship operating company. To effect the redomestication, a Bermuda exempted company, XL Group Ltd (NYSE:XL), replaced XL Group plc as the ultimate holding company of the XL group of companies. We believe this change in corporate structure did not have much of an impact on financials or on XL's ability to receive dividends from its operating companies, which could be upstreamed from operating companies in multiple jurisdictions.

Accounting Considerations

In second-quarter 2014, XL completed the sale of its subsidiary, XL Life Reinsurance (SAC) Ltd. (XLLR), to GreyCastle Holdings Ltd. XLLR reinsured the majority of XL's life reinsurance business via 100% quota share. This transaction covers a substantial portion of XL's life reinsurance reserves. As part of the retrocession, XL will no longer be exposed to the majority of its life reinsurance's invested assets volatility, given that the market volatility is passed on to XLLR through the funds withheld arrangement. As a result, XL is exposed to a large collateralized reinsurance recoverable from XLLR of approximately $4.2 billion. However, the counterparty credit risk is limited, as we expect the collateral to exceed the recoverable. In 2014, the transaction resulted in an overall after-tax U.S. generally accepted accounting principles net loss of $621 million. As a result of the transaction and associated accounting, the company's net income is subject to variability related to investment income and changes in valuation of funds withheld, which runs through XL's income statement (though reversed in comprehensive income). In our analysis of adjusted earnings before interest and taxes, return on revenue, and fixed-charge coverage, we look through this variability and also exclude investments withheld from our capital model.

On Dec. 2, 2015, XL announced that its wholly owned subsidiary, XL Life Ltd., entered into a definitive agreement to reinsure a block of U.S. term life treaties to a subsidiary of Reinsurance Group of America Inc. This transaction includes all U.S. term life reinsurance policy reserves and cedes 80% of the remaining life reinsurance premiums that were not included in XL's 2014 sale of its life reinsurance subsidiary, SAC.

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Methodology And Assumptions: Assigning Equity Content To Corporate Entity And North American Insurance Holding Company Hybrid Capital Instruments, April 1, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Enterprise Risk Management, May 7, 2013
- Insurers: Rating Methodology, May 7, 2013
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings Detail (As Of December 13, 2016)	
Holding Company: XLIT Ltd.	
Issuer Credit Rating	A-/Positive/--
Junior Subordinated	BBB
Preference Stock	BBB
Preferred Stock	BBB
Senior Unsecured	A-
Subordinated	BBB
Operating Companies Covered By This Report	
XL Bermuda Ltd.	
Financial Strength Rating	
Local Currency	A+/Positive/--
Counterparty Credit Rating	
Local Currency	A+/Positive/--
Catlin Insurance Co. Inc.	
Financial Strength Rating	
Local Currency	A/Positive/--

Ratings Detail (As Of December 13, 2016) (cont.)	
Issuer Credit Rating	
Local Currency	A/Positive/--
Catlin Insurance Co. Ltd.	
Financial Strength Rating	
Local Currency	A/Positive/--
Issuer Credit Rating	
Local Currency	A/Positive/--
Preferred Stock	BBB+
Catlin Insurance Co. (U.K.) Ltd.	
Financial Strength Rating	
Local Currency	A+/Positive/--
Issuer Credit Rating	
Local Currency	A+/Positive/--
Catlin Speciality Insurance Co.	
Financial Strength Rating	
Local Currency	A/Positive/--
Issuer Credit Rating	
Local Currency	A/Positive/--
Greenwich Insurance Co.	
Financial Strength Rating	
Local Currency	A+/Positive/--
Issuer Credit Rating	
Local Currency	A+/Positive/--
Indian Harbor Insurance Co.	
Financial Strength Rating	
Local Currency	A+/Positive/--
Issuer Credit Rating	
Local Currency	A+/Positive/--
XL Insurance America Inc.	
Financial Strength Rating	
Local Currency	A+/Positive/--
Issuer Credit Rating	
Local Currency	A+/Positive/--
XL Insurance Company SE	
Financial Strength Rating	
Local Currency	A+/Positive/--
Issuer Credit Rating	
Local Currency	A+/Positive/NR
XL Insurance Co. of New York, Inc.	
Financial Strength Rating	
Local Currency	A+/Positive/--
Issuer Credit Rating	
Local Currency	A+/Positive/--

Ratings Detail (As Of December 13, 2016) (cont.)	
XL Insurance Switzerland Ltd.	
Financial Strength Rating	
Local Currency	A+/Positive/--
Issuer Credit Rating	
Local Currency	A+/Positive/--
XL Re Europe SE	
Financial Strength Rating	
Local Currency	A+/Positive/--
Issuer Credit Rating	
Local Currency	A+/Positive/--
XL Reinsurance America Inc.	
Financial Strength Rating	
Local Currency	A+/Positive/--
Issuer Credit Rating	
Local Currency	A+/Positive/--
XL Re Latin America Ltd.	
Financial Strength Rating	
Local Currency	A+/Positive/--
Issuer Credit Rating	
Local Currency	A+/Positive/--
XL Re Ltd. - U.K.	
Financial Strength Rating	
Local Currency	A+/Positive/--
XL Select Insurance Co.	
Financial Strength Rating	
Local Currency	A+/Positive/--
Issuer Credit Rating	
Local Currency	A+/Positive/--
XL Specialty Insurance Co.	
Financial Strength Rating	
Local Currency	A+/Positive/--
Issuer Credit Rating	
Local Currency	A+/Positive/--
Related Entities	
Catlin Re Switzerland Ltd	
Financial Strength Rating	
Local Currency	A+/Positive/--
Issuer Credit Rating	
Local Currency	A+/Positive/--
X.L. America, Inc.	
Issuer Credit Rating	
Local Currency	A-/Positive/--
Domicile	Bermuda

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable

Ratings Detail (As Of December 13, 2016) (cont.)

across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.