

Allied World Assurance Co Holdings, AG  
Form 10-Q  
April 22, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q  
(Mark One)

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

For the quarterly period ended: March 31, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-32938

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG

(Exact Name of Registrant as Specified in Its Charter)

Switzerland

98-0681223

(State or Other Jurisdiction of

(I.R.S. Employer

Incorporation or Organization)

Identification No.)

Gubelstrasse 24, Park Tower, 15th Floor, 6300 Zug, Switzerland

(Address of Principal Executive Offices and Zip Code)

41-41-768-1080

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

As of April 13, 2015, 95,444,669 common shares were outstanding.



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## PART I

## FINANCIAL INFORMATION

## Item 1. Financial Statements.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG  
 UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS  
 as of March 31, 2015 and December 31, 2014  
 (Expressed in thousands, except share and per share amounts)

|   | As of<br>March 31,<br>2015 | As of<br>December 31,<br>2014 |
|---|----------------------------|-------------------------------|
| <b>ASSETS:</b>  |                            |                               |
| Fixed maturity investments trading, at fair value (amortized cost: 2015: \$6,229,608; 2014: \$6,035,240)  | \$6,288,897                | \$6,069,010                   |
| Equity securities trading, at fair value (cost: 2015: \$798,275; 2014: \$791,206)   | 856,652                    | 844,163                       |
| Other invested assets   | 926,407                    | 955,509                       |
| Total investments   | 8,071,956                  | 7,868,682                     |
| Cash and cash equivalents   | 515,070                    | 589,339                       |
| Restricted cash   | 49,931                     | 80,971                        |
| Insurance balances receivable   | 773,394                    | 664,815                       |
| Funds held  | 479,909                    | 724,021                       |
| Prepaid reinsurance   | 318,838                    | 360,732                       |
| Reinsurance recoverable   | 1,350,311                  | 1,340,256                     |
| Reinsurance recoverable on paid losses  | 107,071                    | 86,075                        |
| Accrued investment income   | 28,267                     | 28,456                        |
| Net deferred acquisition costs  | 187,246                    | 151,546                       |
| Goodwill  | 280,725                    | 278,258                       |
| Intangible assets   | 49,274                     | 46,298                        |
| Balances receivable on sale of investments  | 46,822                     | 47,149                        |
| Net deferred tax assets   | 29,922                     | 33,615                        |
| Other assets  | 329,050                    | 121,350                       |
| Total assets  | \$12,617,786               | \$12,421,563                  |
| <b>LIABILITIES:</b>   |                            |                               |
| Reserve for losses and loss expenses  | \$5,905,110                | \$5,881,165                   |
| Unearned premiums   | 1,717,399                  | 1,555,313                     |
| Reinsurance balances payable  | 184,322                    | 180,060                       |
| Balances due on purchases of investments  | 34,396                     | 5,428                         |
| Senior notes  | 798,881                    | 798,802                       |
| Other long-term debt  | 19,730                     | 19,213                        |
| Dividends payable   | 21,528                     | 21,669                        |
| Accounts payable and accrued liabilities  | 107,353                    | 181,622                       |
| Total liabilities   | \$8,788,719                | \$8,643,272                   |
| Commitments and contingencies   |                            |                               |
| <b>SHAREHOLDERS' EQUITY:</b>  |                            |                               |
| Common shares: 2015 and 2014: par value CHF 4.10 per share (2015: 100,299,454; 2014: 100,775,256 shares issued and 2015: 95,444,669; 2014: 96,195,482 shares outstanding) | 406,088                    | 408,020                       |
| Treasury shares, at cost (2015: 4,854,785; 2014: 4,579,774)   | (162,356)                  | (143,075)                     |
| Retained earnings   | 3,585,335                  | 3,513,346                     |
| Total shareholders' equity  | 3,829,067                  | 3,778,291                     |

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|  |              |              |
|--|--------------|--------------|
| Total liabilities and shareholders' equity | \$12,617,786 | \$12,421,563 |
|--|--------------|--------------|

See accompanying notes to the consolidated financial statements.

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ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 AND COMPREHENSIVE INCOME

for the three months ended March 31, 2015 and 2014

(Expressed in thousands, except share and per share amounts)

|   | Three Months Ended<br>March 31, |             |
|---|---------------------------------|-------------|
|   | 2015                            | 2014        |
| REVENUES:   |                                 |             |
| Gross premiums written  | \$880,614                       | \$901,393   |
| Premiums ceded  | (108,086 )                      | (129,779 )  |
| Net premiums written  | 772,528                         | 771,614     |
| Change in unearned premiums   | (203,980 )                      | (241,329 )  |
| Net premiums earned   | 568,548                         | 530,285     |
| Net investment income   | 44,551                          | 47,619      |
| Net realized investment gains   | 45,025                          | 54,205      |
| Other income  | 854                             | —           |
| Total revenue   | 658,978                         | 632,109     |
| EXPENSES:   |                                 |             |
| Net losses and loss expenses  | 325,176                         | 275,286     |
| Acquisition costs   | 78,699                          | 67,722      |
| General and administrative expenses                                     | 97,138                          | 80,340      |
| Other expense   | 1,823                           | —           |
| Amortization of intangible assets                                       | 633                             | 633         |
| Interest expense  | 14,337                          | 14,534      |
| Foreign exchange loss   | 9,897                           | 49          |
| Total expenses  | 527,703                         | 438,564     |
| Income before income taxes  | 131,275                         | 193,545     |
| Income tax expense  | 6,919                           | 16,573      |
| NET INCOME  | 124,356                         | 176,972     |
| Other comprehensive income  | —                               | —           |
| COMPREHENSIVE INCOME  | \$ 124,356                      | \$ 176,972  |
| PER SHARE DATA  |                                 |             |
| Basic earnings per share  | \$ 1.30                         | \$ 1.78     |
| Diluted earnings per share  | \$ 1.27                         | \$ 1.74     |
| Weighted average common shares outstanding                              | 95,935,551                      | 99,545,187  |
| Weighted average common shares and common share equivalents outstanding | 97,577,029                      | 101,584,662 |
| Dividends paid per share  | \$0.225                         | \$0.167     |
| See accompanying notes to the consolidated financial statements.        |                                 |             |

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ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
 for the three months ended March 31, 2015 and 2014  
 (Expressed in thousands)

|                    | Share<br>Capital | Treasury<br>Shares | Retained<br>Earnings | Total       |
|--------------------|------------------|--------------------|----------------------|-------------|
| December 31, 2014  | \$408,020        | \$(143,075         | ) \$3,513,346        | \$3,778,291 |
| Net income         | —                | —                  | 124,356              | 124,356     |
| Dividends          | —                | —                  | (21,522              | ) (21,522   |
| Stock compensation | —                | 12,288             | (13,397              | ) (1,109    |
| Share repurchases  | —                | (50,949            | ) —                  | (50,949     |
| Shares canceled    | (1,932           | ) 19,380           | (17,448              | ) —         |
| March 31, 2015     | \$406,088        | \$(162,356         | ) \$3,585,335        | \$3,829,067 |
| December 31, 2013  | \$418,988        | \$(79,992          | ) \$3,180,830        | \$3,519,826 |
| Net income         | —                | —                  | 176,972              | 176,972     |
| Dividends          | —                | —                  | (16,489              | ) (16,489   |
| Stock compensation | —                | 11,236             | (6,208               | ) 5,028     |
| Share repurchases  | —                | (68,659            | ) —                  | (68,659     |
| Shares canceled    | (8,168           | ) 68,659           | (60,491              | ) —         |
| March 31, 2014     | \$410,820        | \$(68,756          | ) \$3,274,614        | \$3,616,678 |

See accompanying notes to the consolidated financial statements.

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ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 for the three months ended March 31, 2015 and 2014  
 (Expressed in thousands)

|   | Three Months Ended<br>March 31, |             |
|---|---------------------------------|-------------|
|   | 2015                            | 2014        |
| <b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:</b>                           |                                 |             |
| Net income  | \$124,356                       | \$176,972   |
| Adjustments to reconcile net income to cash provided by operating activities: |                                 |             |
| Net realized gains on sales of investments                                    | (32,536)                        | (49,756)    |
| Mark to market adjustments  | (22,694)                        | (13,956)    |
| Stock compensation expense  | 4,002                           | 4,240       |
| Undistributed income of equity method investments                             | 9,767                           | (2,292)     |
| Changes in:   |                                 |             |
| Reserve for losses and loss expenses, net of reinsurance recoverables         | 13,890                          | 44,248      |
| Unearned premiums, net of prepaid reinsurance                                 | 203,980                         | 241,329     |
| Insurance balances receivable   | (108,579)                       | (175,739)   |
| Reinsurance recoverable on paid losses  | (20,996)                        | 840         |
| Funds held  | 244,112                         | 184,629     |
| Reinsurance balances payable  | 4,262                           | (12,982)    |
| Net deferred acquisition costs  | (35,700)                        | (40,443)    |
| Net deferred tax assets   | 3,693                           | 521         |
| Accounts payable and accrued liabilities                                      | (75,008)                        | (83,745)    |
| Other items, net  | 5,027                           | 29,230      |
| Net cash provided by operating activities                                     | 317,576                         | 303,096     |
| <b>CASH FLOWS USED IN INVESTING ACTIVITIES:</b>                               |                                 |             |
| Purchases of trading securities   | (1,723,443)                     | (1,568,993) |
| Purchases of other invested assets  | (233,252)                       | (779,934)   |
| Sales of trading securities   | 1,561,890                       | 1,494,648   |
| Sales of other invested assets  | 56,535                          | 663,237     |
| Purchases of fixed assets   | (8,374)                         | (2,336)     |
| Net cash paid on acquisition  | (3,543)                         | —           |
| Change in restricted cash   | 31,040                          | 4,823       |
| Net cash used in investing activities   | (319,147)                       | (188,555)   |
| <b>CASH FLOWS USED IN FINANCING ACTIVITIES:</b>                               |                                 |             |
| Dividends paid  | (21,669)                        | (16,732)    |
| Proceeds from the exercise of stock options                                   | 4,223                           | 3,030       |
| Share repurchases   | (50,273)                        | (68,659)    |
| Net cash used in financing activities   | (67,719)                        | (82,361)    |
| Effect of exchange rate changes on foreign currency cash                      | (4,979)                         | 1,686       |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS                          | (74,269)                        | 33,866      |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD                                | 589,339                         | 531,936     |
| CASH AND CASH EQUIVALENTS, END OF PERIOD                                      | \$515,070                       | \$565,802   |
| Supplemental disclosure of cash flow information:                             |                                 |             |
| Cash paid for income taxes  | \$717                           | \$529       |
| Cash paid for interest expense  | \$18,750                        | \$18,750    |
| See accompanying notes to the consolidated financial statements.              |                                 |             |





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ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in thousands, except share, per share, percentage and ratio information)

1. GENERAL

Allied World Assurance Company Holdings, AG, a Swiss holding company (“Allied World Switzerland”), through its wholly-owned subsidiaries (collectively, the “Company”), is a global provider of a diversified portfolio of property and casualty insurance and reinsurance products with operations in Australia, Bermuda, Canada, Europe Hong Kong, Singapore and the United States as well as Lloyd's Syndicate 2232. References to \$ are to the lawful currency of the United States and to CHF are to the lawful currency of Switzerland.

In January 2015, the Company acquired Latin American Underwriters Holdings Ltd. (“LAU”) for \$5,105. LAU had previously underwritten trade credit insurance and political risk coverages solely for the Company since 2010. As part of the acquisition, the Company recorded goodwill of \$2,467 and customer relationship intangibles of \$3,610, which have a five-year amortization period. The Company also recorded \$1,000 of contingent consideration related to certain earn-out payments.

During the fourth quarter of 2014, the Company reorganized how it manages its business, and as a result it realigned its executive management team and changed its reportable segments to correspond to the reorganization. The Company's Bermuda insurance operations, except for the trade credit line of business, which had previously been included in the international insurance segment, was combined with the U.S. insurance segment, with the new segment renamed the "North American Insurance" segment. The remaining direct insurance operations of the international insurance segment was renamed the "Global Markets Insurance" segment. The Reinsurance segment remained unchanged. The newly created segments are included in Note 12 and prior periods have been recast to conform to the new presentation.

On May 1, 2014, the shareholders approved a 3-for-1 stock split of the Company's common shares. All historical share and per share amounts reflect the effect of the stock split.

2. BASIS OF PREPARATION AND CONSOLIDATION

These unaudited condensed consolidated financial statements include the accounts of the Company and have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with Article 10 of Regulation S-X as promulgated by the U.S. Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, these unaudited condensed consolidated financial statements reflect all adjustments that are normal and recurring in nature and necessary for a fair presentation of financial position and results of operations as of 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.

The preparation of financial statements in conformity with U.S. 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 from those estimates. The significant estimates reflected in the Company's financial statements, include, but are not limited to:

- The premium estimates for certain reinsurance agreements,
- Recoverability of deferred acquisition costs,
- The reserve for outstanding losses and loss expenses,

- Valuation of ceded reinsurance recoverables,
- Determination of impairment of goodwill and other intangible assets, and
- Valuation of financial instruments.

Intercompany accounts and transactions have been eliminated on consolidation and all entities meeting consolidation requirements have been included in the unaudited condensed consolidated financial statements.

These unaudited condensed consolidated financial statements, including these notes, should be read in conjunction with the Company's audited consolidated financial statements, and related notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

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ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands, except share, per share, percentage and ratio information)

**3. NEW ACCOUNTING PRONOUNCEMENTS**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 provides a framework, through a five-step process, for recognizing revenue from customers, improves comparability and consistency of recognizing revenue across entities, industries, jurisdictions and capital markets, and requires enhanced disclosures. Certain contracts with customers are specifically excluded from the scope of ASU 2014-09, including, among others, insurance contracts accounted for under Accounting Standard Codification 944, Financial Services - Insurance. ASU 2014-09 is effective on January 1, 2017 with retrospective adoption required for the comparative periods. In recent re-deliberations, the FASB has decided to propose a one-year deferral of the effective date of ASU 2014-09, such that it will become effective on January 1, 2018. The Company is currently assessing the impact the adoption of ASU 2014-09 will have on future financial statements and related disclosures.

In August 2014, the FASB issued Accounting Standards Update 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"). Currently, there is no guidance under U.S. GAAP regarding management's responsibility to assess whether there is substantial doubt about an entity's ability to continue as a going concern. Under ASU 2014-15, the Company will be required to assess its ability to continue as a going concern each interim and annual reporting period and provide certain disclosures if there is substantial doubt about the entity's ability to continue as a going concern, including management's plan to alleviate the substantial doubt. ASU 2014-15 is effective for the year ended December 31, 2016 and early adoption is permitted. The Company early adopted ASU 2014-15 on January 1, 2015.

In February 2015, the FASB issued Accounting Standards Update 2015-02, "Amendments to the Consolidation Analysis" ("ASU 2015-02"). ASU 2015-02 amends certain aspects of the consolidation guidance in U.S. GAAP. In particular, it will modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities and also eliminates the presumption that a general partner should consolidate a limited partnership. The new guidance will also affect the consolidation analysis of the Company's interests in VIEs, particularly those that have fee arrangements and related party relationships. ASU 2015-02 is effective on January 1, 2016 and retrospectively adoption is required either through a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the year of adoption or retrospectively for all comparative periods. Early adoption is permitted. The Company is currently assessing the impact the adoption of ASU 2015-02 will have on future financial statements and related disclosures.

**4. INVESTMENTS****a) Trading Securities**

Securities accounted for at fair value with changes in fair value recognized in the unaudited condensed consolidated statements of operations and comprehensive income ("consolidated income statements") by category are as follows:

|   | March 31, 2015 |                | December 31, 2014 |                |
|---|----------------|----------------|-------------------|----------------|
|   | Fair Value     | Amortized Cost | Fair Value        | Amortized Cost |
| U.S. government and government agencies           | \$ 1,577,775   | \$ 1,569,317   | \$ 1,610,502      | \$ 1,610,880   |
| Non-U.S. government and government agencies       | 189,448        | 204,867        | 188,199           | 196,332        |
| States, municipalities and political subdivisions | 178,551        | 172,339        | 170,567           | 165,615        |
| Corporate debt:                                   |                |                |                   |                |
| Financial institutions                            | 1,107,108      | 1,094,338      | 1,024,667         | 1,018,777      |
| Industrials                                       | 1,107,548      | 1,105,744      | 1,029,729         | 1,037,820      |
| Utilities   | 113,383        | 113,280        | 110,997           | 111,599        |

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|                                  |                |               |                   |               |
|----------------------------------|----------------|---------------|-------------------|---------------|
| Mortgage-backed                  | 1,286,210      | 1,238,165     | 1,263,517         | 1,219,712     |
| Asset-backed                     | 728,874        | 731,558       | 670,832           | 674,505       |
| Total fixed maturity investments | \$6,288,897    | \$6,229,608   | \$6,069,010       | \$6,035,240   |
|                                  | March 31, 2015 |               | December 31, 2014 |               |
|                                  | Fair Value     | Original Cost | Fair Value        | Original Cost |
| Equity securities                | \$856,652      | \$798,275     | \$844,163         | \$791,206     |
| Other invested assets            | 792,569        | 701,637       | 812,543           | 725,069       |
|                                  | \$1,649,221    | \$1,499,912   | \$1,656,706       | \$1,516,275   |

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## ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands, except share, per share, percentage and ratio information)

Other invested assets, included in the table above, include investments in private equity funds, hedge funds and a high yield loan fund that are accounted for at fair value, but exclude other private securities described below in Note 4(b) that are accounted for using the equity method of accounting.

## b) Other Invested Assets

Details regarding the carrying value, redemption characteristics and unfunded investment commitments of the other invested assets portfolio as of March 31, 2015 and December 31, 2014 were as follows:

| Investment Type                           | Carrying Value as of March 31, 2015 | Investments with Redemption Restrictions | Estimated Remaining Restriction Period | Investments without Redemption Restrictions | Redemption Frequency(1)  | Redemption Notice Period(1) | Unfunded Commitments |
|---|-------------------------------------|--|--|---|--------------------------|-----------------------------|----------------------|
| Private equity                            | \$196,090                           | \$196,090                                | 2 - 8 Years                            | \$—   |                          |                             | \$ 191,382           |
| Mezzanine debt                            | 163,357                             | 163,357                                  | 5 - 9 Years                            | —   |                          |                             | 200,804              |
| Distressed                                | 5,545                               | 5,545                                    | 3 Years                                | —   |                          |                             | 5,347                |
| Real estate                               | —                                   | —  | 9 Years                                | —   |                          |                             | 150,000              |
| Total private equity                      | 364,992                             | 364,992                                  |  | —   |                          |                             | 547,533              |
| Distressed                                | 173,122                             | 173,122                                  |  | —   | Based on net asset value | 60 Days                     | —                    |
| Equity long/short                         | 87,644                              | —  | 1 Year                                 | 87,644                                      | Quarterly                | 30 -60 Days                 | —                    |
| Multi-strategy                            | 15,996                              | —  |  | 15,996                                      | Quarterly                | 45 -90 Days                 | —                    |
| Relative value credit                     | 120,460                             | —  |  | 120,460                                     | Quarterly                | 60 Days                     | —                    |
| Total hedge funds                         | 397,222                             | 173,122                                  |  | 224,100                                     |                          |                             | —                    |
| High yield loan fund                      | 30,355                              | —  |  | 30,355                                      | Monthly                  | 30 days                     | —                    |
| Total other invested assets at fair value | 792,569                             | 538,114                                  |  | 254,455                                     |                          |                             | 547,533              |
| Other private securities                  | 133,838                             | —  |  | 133,838                                     |                          |                             | —                    |
| Total other invested assets               | \$926,407                           | \$538,114                                |  | \$388,293                                   |                          |                             | \$ 547,533           |

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## ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands, except share, per share, percentage and ratio information)

| Investment Type                           | Carrying Value as of December 31, 2014 | Investments with Redemption Restrictions | Estimated Remaining Restriction Period | Investments without Redemption Restrictions | Redemption Frequency(1)  | Redemption Notice Period(1) | Unfunded Commitments |
|---|--|--|--|---|--------------------------|-----------------------------|----------------------|
| Private equity                            | \$184,576                              | \$184,576                                | 2 - 8 Years                            | \$—   |                          |                             | \$ 223,802           |
| Mezzanine debt                            | 166,905                                | 166,905                                  | 5 - 9 Years                            | —   |                          |                             | 204,232              |
| Distressed                                | 5,869                                  | 5,869                                    | 3 Years                                | —   |                          |                             | 5,180                |
| Real estate                               | —                                      | —  | 9 Years                                | —   |                          |                             | 50,000               |
| Total private equity                      | 357,350                                | 357,350                                  |  | —   |                          |                             | 483,214              |
| Distressed                                | 170,169                                | 170,169                                  |  | —   | Based on net asset value | 60 Days                     | —                    |
| Equity long/short                         | 84,198                                 | —  |  | 84,198                                      | Quarterly                | 30 -60 Days                 | —                    |
| Multi-strategy                            | 51,507                                 | —  |  | 51,507                                      | Quarterly                | 45 -90 Days                 | —                    |
| Relative value credit                     | 119,156                                | —  |  | 119,156                                     | Quarterly                | 60 Days                     | —                    |
| Total hedge funds                         | 425,030                                | 170,169                                  |  | 254,861                                     |                          |                             | —                    |
| High yield loan fund                      | 30,163                                 | —  |  | 30,163                                      | Monthly                  | 30 days                     | —                    |
| Total other invested assets at fair value | 812,543                                | 527,519                                  |  | 285,024                                     |                          |                             | 483,214              |
| Other private securities                  | 142,966                                | —  |  | 142,966                                     |                          |                             | —                    |
| Total other invested assets               | \$955,509                              | \$527,519                                |  | \$427,990                                   |                          |                             | \$ 483,214           |

(1) The redemption frequency and notice periods only apply to the investments without redemption restrictions. Some or all of these investments may be subject to a gate as described below.

In general, the Company has invested in hedge funds that require at least 30 days' notice of redemption and may be redeemed on a monthly, quarterly, semi-annual, annual or longer basis, depending on the fund. Certain hedge funds have lock-up periods ranging from one to three years from initial investment. A lock-up period refers to the initial amount of time an investor is contractually required to invest before having the ability to redeem. Funds that provide for periodic redemptions may, depending on the funds' governing documents, have the ability to deny or delay a redemption request, called a "gate." The fund may implement this restriction because the aggregate amount of redemption requests as of a particular date exceeds a specified level, generally ranging from 15% to 25% of the fund's net assets. The gate is a method for executing an orderly redemption process to reduce the possibility of adversely affecting investors in the fund. Typically, the imposition of a gate delays a portion of the requested redemption, with the remaining portion settled in cash sometime after the redemption date. Certain funds may impose a redemption fee on early redemptions. Interests in private equity funds cannot be redeemed because the investments include restrictions that do not allow for redemption until termination of the fund.

The following describes each investment type:

**Private equity funds:** Primary funds may invest in companies and general partnership interests. Secondary funds buy limited partnership interests from existing limited partners of primary private equity funds. As owners of private equity funds seek liquidity, they can sell their existing investments, plus any remaining commitment, to secondary market participants. These funds cannot be redeemed because the investments include restrictions that do not allow

for redemption until termination of the fund.

**Mezzanine debt funds:** Mezzanine debt funds primarily focus on providing capital to upper middle market and middle market companies and private equity sponsors, in connection with leveraged buyouts, mergers and acquisitions, recapitalizations, growth financings and other corporate transactions. The most common position in the capital structure will be between the senior secured debt holder and the equity; however, the funds will utilize a flexible approach when structuring investments, which may include secured debt, subordinated debt, preferred stock and/or private equity. These funds cannot be redeemed because the investments include restrictions that do not allow for redemption until termination of the fund.

**Distressed funds:** In distressed debt investing, managers take positions in the debt of companies experiencing significant financial difficulties, including bankruptcy, or in certain positions of the capital structure of structured



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securities. The manager relies on the fundamental analysis of these securities, including the claims on the assets and the likely return to bondholders. Certain funds cannot be redeemed because the investments include restrictions that do not allow for redemption until termination of the fund.

Real estate funds: Private real estate funds invest directly in commercial real estate (multifamily units, industrial buildings, office spaces and retail stores) and some residential property. Real estate managers have diversified portfolios that generally follow core, core-plus, value-added or opportunistic strategies. These funds cannot be redeemed because the investments include restrictions that do not allow for redemption until termination of the fund.

Equity long/short funds: In equity long/short funds, managers take long positions in companies they deem to be undervalued and short positions in companies they deem to be overvalued. Long/short managers may invest in countries, regions or sectors and vary by their use of leverage and by their targeted net long position.

Multi-strategy funds: These funds may utilize many strategies employed by specialized funds including distressed investing, equity long/short, merger arbitrage, convertible arbitrage, fixed income arbitrage and macro trading.

Relative value credit funds: These funds seek to take exposure to credit-sensitive securities, long and/or short, based upon credit analysis of issuers and securities and credit market views.

High yield loan fund: A long-only private mutual fund that invests in high yield fixed income securities.

Other private securities: These securities mostly include strategic non-controlling minority investments in private asset management companies and other insurance related investments that are accounted for using the equity method of accounting.

## c) Net Investment Income

|   | Three Months Ended |          |
|---|--------------------|----------|
|   | March 31,          |          |
|   | 2015               | 2014     |
| Fixed maturity investments                            | \$36,258           | \$36,299 |
| Equity securities                                     | 3,563              | 3,253    |
| Other invested assets: hedge funds and private equity | 8,380              | 3,992    |
| Other invested assets: other private securities       | 866                | 7,416    |
| Cash and cash equivalents                             | 462                | 439      |
| Expenses  | (4,978             | ) (3,780 |
| Net investment income                                 | \$44,551           | \$47,619 |

## d) Components of Realized Gains and Losses

|   | Three Months Ended |           |
|---|--------------------|-----------|
|   | March 31,          |           |
|   | 2015               | 2014      |
| Gross realized gains on sale of invested assets   | \$45,289           | \$62,292  |
| Gross realized losses on sale of invested assets  | (13,004            | ) (12,247 |
| Net realized and unrealized losses on derivatives | (11,632            | ) (12,920 |
| Mark-to-market gains (losses):                    |                    |           |
| Fixed maturity investments, trading               | 25,517             | 22,455    |
| Equity securities, trading                        | 5,420              | (21,605   |
| Other invested assets, trading                    | (6,565             | ) 16,230  |
| Net realized investment gains                     | \$45,025           | \$54,205  |

## e) Pledged Assets

As of March 31, 2015 and December 31, 2014, \$3,114,066 and \$3,585,792, respectively, of cash and cash equivalents and investments were deposited, pledged or held in trust accounts in favor of ceding companies and other counterparties or government authorities to comply with reinsurance contract provisions, insurance laws and other contract provisions.

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In addition, as of March 31, 2015 and December 31, 2014, a further \$599,724 and \$571,750, respectively, of cash and cash equivalents and investments were pledged as collateral for the Company's letter of credit facilities. See Note 10(f) to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 for details on the Company's credit facilities.

## 5. DERIVATIVE INSTRUMENTS

As of March 31, 2015 and December 31, 2014, none of the Company's derivatives were designated as hedges for accounting purposes. The following table summarizes information on the location and amounts of derivative fair values on the unaudited condensed consolidated balance sheets ("consolidated balance sheets"):

|                            | March 31, 2015                            |                                   |   |                                       | December 31, 2014                         |                                   |   |                                       |
|----------------------------|---|-----------------------------------|---|---------------------------------------|---|-----------------------------------|---|---------------------------------------|
|                            | Asset<br>Derivative<br>Notional<br>Amount | Asset<br>Derivative<br>Fair Value | Liability<br>Derivative<br>Notional<br>Amount | Liability<br>Derivative<br>Fair Value | Asset<br>Derivative<br>Notional<br>Amount | Asset<br>Derivative<br>Fair Value | Liability<br>Derivative<br>Notional<br>Amount | Liability<br>Derivative<br>Fair Value |
| Foreign exchange contracts | \$32,833                                  | \$ 123                            | \$24,857                                      | \$ 203                                | \$33,875                                  | \$ 1,274                          | \$ 167,376                                    | \$ 991                                |
| Interest rate swaps        | —   | —                                 | 662,200                                       | 1,119                                 | —   | —                                 | 571,500                                       | 683                                   |
| Total derivatives          | \$32,833                                  | \$ 123                            | \$ 687,057                                    | \$ 1,322                              | \$33,875                                  | \$ 1,274                          | \$ 738,876                                    | \$ 1,674                              |

Derivative assets and derivative liabilities are classified within "other assets" or "accounts payable and accrued liabilities" on the consolidated balance sheets.

The following table provides the net realized and unrealized gains (losses) on derivatives not designated as hedges recorded on the consolidated income statements:

|   | Three Months Ended<br>March 31, |              |
|---|---------------------------------|--------------|
|   | 2015                            | 2014         |
| Foreign exchange contracts                          | \$ (7,352 )                     | \$ (868 )    |
| Total included in foreign exchange loss             | (7,352 )                        | (868 )       |
| Foreign exchange contracts                          | 1,050                           | (558 )       |
| Interest rate futures                               | (12,682 )                       | (12,362 )    |
| Total included in net realized investment gains     | (11,632 )                       | (12,920 )    |
| Total realized and unrealized losses on derivatives | \$ (18,984 )                    | \$ (13,788 ) |

### Derivative Instruments Not Designated as Hedging Instruments

The Company is exposed to foreign currency risk in its investment portfolio. Accordingly, the fair values of the Company's investment portfolio are partially influenced by the change in foreign exchange rates. These foreign currency hedging activities have not been designated as specific hedges for financial reporting purposes.

The Company's insurance and reinsurance subsidiaries and branches operate in various foreign countries and consequently the Company's underwriting portfolio is exposed to foreign currency risk. The Company manages

foreign currency risk by seeking to match liabilities under the insurance policies and reinsurance contracts that it writes and that are payable in foreign currencies with cash and investments that are denominated in such currencies. When necessary, the Company may also use derivatives to economically hedge un-matched foreign currency exposures, specifically forward contracts and currency options. For example, the Company purchased a forward contract to hedge a portion of its foreign currency exposure related to the consideration that was paid for the Hong Kong and Singapore operations of RSA.

The Company also purchases and sells interest rate future and interest rate swap contracts to actively manage the duration and yield curve positioning of its fixed income portfolio. Interest rate futures and interest rate swaps can efficiently increase or

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decrease the overall duration of the portfolio. Additionally, interest rate future and interest rate swap contracts can be utilized to obtain the desired position along the yield curve in order to protect against certain future yield curve shapes.

The Company also purchases options to actively manage its equity portfolio.

## 6. FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with U.S. GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There is a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon whether the inputs to the valuation of an asset or liability are observable or unobservable in the market at the measurement date, with quoted market prices being the highest level (Level 1) and unobservable inputs being the lowest level (Level 3). A fair value measurement will fall within the level of the hierarchy based on the input that is significant to determining such measurement. The three levels are defined as follows:

Level 1: Observable inputs to the valuation methodology that are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Observable inputs to the valuation methodology other than quoted market prices (unadjusted) for identical assets or liabilities in active markets. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical assets in markets that are not active and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology that are unobservable for the asset or liability.

The following table shows the fair value of the Company's financial instruments and where in the fair value hierarchy the fair value measurements are included as of the dates indicated below:

| March 31, 2015                                    | Carrying Amount | Total Fair Value | Level 1     | Level 2     | Level 3     |
|---|-----------------|------------------|-------------|-------------|-------------|
| Fixed maturity investments:                       |                 |                  |             |             |             |
| U.S. government and government agencies           | \$1,577,775     | \$1,577,775      | \$1,467,357 | \$110,418   | \$—         |
| Non-U.S. government and government agencies       | 189,448         | 189,448          | —           | 189,448     | —           |
| States, municipalities and political subdivisions | 178,551         | 178,551          | —           | 178,551     | —           |
| Corporate debt                                    | 2,328,039       | 2,328,039        | —           | 2,328,039   | —           |
| Mortgage-backed                                   | 1,286,210       | 1,286,210        | —           | 1,153,512   | 132,698     |
| Asset-backed                                      | 728,874         | 728,874          | —           | 635,942     | 92,932      |
| Total fixed maturity investments                  | 6,288,897       | 6,288,897        | 1,467,357   | 4,595,910   | 225,630     |
| Equity securities                                 | 856,652         | 856,652          | 807,885     | —           | 48,767      |
| Other invested assets                             | 792,569         | 792,569          | —           | —           | 792,569     |
| Total investments                                 | \$7,938,118     | \$7,938,118      | \$2,275,242 | \$4,595,910 | \$1,066,966 |
| Derivative assets:                                |                 |                  |             |             |             |
| Foreign exchange contracts                        | \$123           | \$123            | \$—         | \$123       | \$—         |
| Derivative liabilities:                           |                 |                  |             |             |             |
| Foreign exchange contracts                        | \$203           | \$203            | \$—         | \$203       | \$—         |

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|                      |           |           |     |           |     |
|----------------------|-----------|-----------|-----|-----------|-----|
| Interest rate swaps  | 1,119     | 1,119     | —   | 1,119     | —   |
| Senior notes         | \$798,881 | \$877,027 | \$— | \$877,027 | \$— |
| Other long-term debt | \$19,730  | \$27,175  | \$— | \$27,175  | \$— |

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| December 31, 2014                                 | Carrying Amount | Total Fair Value | Level 1     | Level 2     | Level 3     |
|---|-----------------|------------------|-------------|-------------|-------------|
| Fixed maturity investments:                       |                 |                  |             |             |             |
| U.S. Government and Government agencies           | \$1,610,502     | \$1,610,502      | \$1,499,347 | \$111,155   | \$—         |
| Non-U.S. Government and Government agencies       | 188,199         | 188,199          | —           | 188,199     | —           |
| States, municipalities and political subdivisions | 170,567         | 170,567          | —           | 170,567     | —           |
| Corporate debt                                    | 2,165,393       | 2,165,393        | —           | 2,165,393   | —           |
| Mortgage-backed                                   | 1,263,517       | 1,263,517        | —           | 1,081,734   | 181,783     |
| Asset-backed                                      | 670,832         | 670,832          | —           | 615,419     | 55,413      |
| Total fixed maturity investments                  | 6,069,010       | 6,069,010        | 1,499,347   | 4,332,467   | 237,196     |
| Equity securities                                 | 844,163         | 844,163          | 800,833     | —           | 43,330      |
| Other invested assets                             | 812,543         | 812,543          | —           | —           | 812,543     |
| Total investments                                 | \$7,725,716     | \$7,725,716      | \$2,300,180 | \$4,332,467 | \$1,093,069 |
| Derivative assets:                                |                 |                  |             |             |             |
| Foreign exchange contracts                        | \$1,274         | \$1,274          | \$—         | \$1,274     | \$—         |
| Derivative liabilities:                           |                 |                  |             |             |             |
| Foreign exchange contracts                        | \$991           | \$991            | \$—         | \$991       | \$—         |
| Interest rate swaps                               | \$683           | \$683            | \$—         | \$683       | \$—         |
| Senior notes                                      | \$798,802       | \$879,317        | \$—         | \$879,317   | \$—         |
| Other long-term debt                              | \$19,213        | \$22,583         | \$—         | \$22,583    | \$—         |

“Other invested assets” exclude other private securities that the Company did not measure at fair value, but are accounted for using the equity method of accounting. Derivative assets and derivative liabilities relating to foreign exchange contracts and interest rate swaps are classified within “other assets” or “accounts payable and accrued liabilities” on the consolidated balance sheets.

The following describes the valuation techniques used by the Company to determine the fair value of financial instruments held as of the balance sheet date.

**Recurring Fair Value of Financial Instruments**

U.S. government and government agencies: Comprised primarily of bonds issued by the U.S. Treasury, the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. The fair values of the Company’s U.S. government securities are based on quoted market prices in active markets and are included in the Level 1 fair value hierarchy. The Company believes the market for U.S. Treasury securities is an actively traded market given the high level of daily trading volume. The fair values of U.S. government agency securities are priced using the spread above the risk-free yield curve. As the yields for the risk-free yield curve and the spreads for these securities are observable market inputs, the fair values of U.S. government agency securities are included in the Level 2 fair value hierarchy.

Non-U.S. government and government agencies: Comprised of fixed income obligations of non-U.S. governmental entities. The fair values of these securities are based on prices obtained from international indices and are included in the Level 2 fair value hierarchy.

States, municipalities and political subdivisions: Comprised of fixed income obligations of U.S.-domiciled state and municipality entities. The fair values of these securities are based on prices obtained from the new issue market, and are included in the Level 2 fair value hierarchy.

Corporate debt: Comprised of bonds issued by or loan obligations of corporations that are diversified across a wide range of issuers and industries. The fair values of corporate debt that are short-term are priced using the spread above the LIBOR yield curve, and the fair values of corporate debt that are long-term are priced using the spread above the risk-free yield curve.



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The spreads are sourced from broker-dealers, trade prices and the new issue market. As the significant inputs used to price corporate bonds are observable market inputs, the fair values of corporate debt are included in the Level 2 fair value hierarchy.

Mortgage-backed: Primarily comprised of residential and commercial mortgages originated by both U.S. government agencies (such as the Federal National Mortgage Association) and non-U.S. government agencies. The fair values of mortgage-backed securities originated by U.S. government agencies and non-U.S. government agencies are based on a pricing model that incorporates prepayment speeds and spreads to determine the appropriate average life of mortgage-backed securities. The spreads are sourced from broker-dealers, trade prices and the new issue market. As the significant inputs used to price the mortgage-backed securities are observable market inputs, the fair values of these securities are included in the Level 2 fair value hierarchy, unless the significant inputs used to price the mortgage-backed securities are broker-dealer quotes and the Company is not able to determine if those quotes are based on observable market inputs, in which case the fair value is included in the Level 3 hierarchy.

Asset-backed: Principally comprised of bonds backed by pools of automobile loan receivables, home equity loans, credit card receivables and collateralized loan obligations originated by a variety of financial institutions. The fair values of asset-backed securities are priced using prepayment speed and spread inputs that are sourced from the new issue market or broker-dealer quotes. As the significant inputs used to price the asset-backed securities are observable market inputs, the fair values of these securities are included in the Level 2 fair value hierarchy, unless the significant inputs used to price the asset-backed securities are broker-dealer quotes and the Company is not able to determine if those quotes are based on observable market inputs, in which case the fair value is included in the Level 3 hierarchy.

Equity securities: Comprised of common and preferred stocks and mutual funds. Equities are generally included in the Level 1 fair value hierarchy as prices are obtained from market exchanges in active markets. Non-U.S. mutual funds where the net asset value ("NAV") is not provided on a daily basis are included in the Level 3 fair value hierarchy.

Other invested assets: Comprised of funds invested in a range of diversified strategies. In accordance with U.S. GAAP, the fair values of the funds are based on the NAV of the funds as reported by the fund manager. The fair value of these investments are included in Level 3 fair value hierarchy as the Company believes NAV is an unobservable input and these securities are not redeemable in the near term. The Company does not measure its investments that are accounted for using the equity method of accounting at fair value.

Derivative instruments: The fair value of foreign exchange contracts, interest rate futures and interest rate swaps are priced from quoted market prices for similar exchange-traded derivatives and pricing valuation models that utilize independent market data inputs. The fair value of derivatives are included in the Level 2 fair value hierarchy.

Senior notes: The fair value of the senior notes is based on reported trades. The fair value of the senior notes is included in the Level 2 fair value hierarchy.

Other long-term debt: Comprised of the mortgage and credit facility associated with the purchase of office space in Switzerland. The fair value of the other long-term debt is based on the value of the debt using current interest rates. The fair value of the long-term debt is included in the Level 2 fair value hierarchy.

Non-recurring Fair Value of Financial Instruments

The Company measures the fair value of certain assets on a non-recurring basis, generally quarterly, annually or when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. These assets include investments accounted for using the equity method, goodwill and intangible assets. The Company uses a variety of techniques to measure the fair value of these assets when appropriate, as described below:

Investments accounted for using the equity method: When the Company determines that the carrying value of these assets may not be recoverable, the Company records the assets at fair value with the loss recognized in income. In such cases, the Company measures the fair value of these assets using discounted cash flow models.

Goodwill and intangible assets: The Company tests goodwill and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, but at least annually for goodwill and

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indefinite-lived intangibles. If the Company determines that goodwill and intangible assets may be impaired, the Company uses techniques, including discounted expected future cash flows and market multiple models, to measure fair value.

## Rollforward of Level 3 Financial Instruments

The following is a reconciliation of the beginning and ending balance of financial instruments using significant unobservable inputs (Level 3):

| Three Months Ended March 31, 2015                             | Other invested assets | Mortgage-backed | Asset-backed | Equities  |
|---|-----------------------|-----------------|--------------|-----------|
| Opening balance   | \$ 812,543            | \$ 181,783      | \$ 55,413    | \$ 43,330 |
| Realized and unrealized gains included in net income          | 14,101                | 1,337           | 352          | 5,437     |
| Purchases   | 39,364                | 20,170          | 25,341       | —         |
| Sales   | (73,439 )             | (70,592 )       | (2,669 )     | —         |
| Transfers into Level 3 from Level 2                           | —                     | —               | 43,610       | —         |
| Transfers out of Level 3 into Level 2 (1)                     | —                     | —               | (29,115 )    | —         |
| Ending balance  | \$ 792,569            | \$ 132,698      | \$ 92,932    | \$ 48,767 |
| Three Months Ended March 31, 2014                             |                       |                 |              |           |
| Opening balance   | \$ 764,081            | \$ 147,338      | \$ 93,413    | \$ 73,904 |
| Realized and unrealized gains (losses) included in net income | 22,626                | 1,368           | (864 )       | (9,821 )  |
| Purchases   | 89,199                | 14,110          | 7,493        | —         |
| Sales   | (35,919 )             | (17,956 )       | (3,176 )     | (29,297 ) |
| Transfers into Level 3 from Level 2                           | —                     | —               | 606          | —         |
| Transfers out of Level 3 into Level 2 (1)                     | —                     | (10,799 )       | (16,238 )    | —         |
| Ending balance  | \$ 839,987            | \$ 134,061      | \$ 81,234    | \$ 34,786 |

(1) Transfers out of Level 3 are primarily attributable to the availability of market observable information.

The Company attempts to verify the significant inputs used by broker-dealers in determining the fair value of the securities priced by them. If the Company could not obtain sufficient information to determine if the broker-dealers were using significant observable inputs, then such securities have been transferred to the Level 3 fair value hierarchy. The Company believes the prices obtained from the broker-dealers are the best estimate of fair value of the securities being priced as the broker-dealers are typically involved in the initial pricing of the security, and the Company has compared the price per the broker-dealer to other pricing sources and noted no material differences. The Company recognizes transfers between levels at the end of the reporting period. There were no transfers between Level 1 and Level 2 during the period.

The Company's external investment accounting service provider receives prices from internationally recognized independent pricing services to measure the fair values of its fixed maturity investments. Pricing sources are evaluated and selected in a manner to ensure that the most reliable sources are used. The Company uses a pricing service ranking to consistently select the most appropriate pricing service in instances where it receives multiple quotes on the same security. The Company obtains multiple quotes for the majority of its securities. The independent pricing sources obtain market quotations and actual transaction prices for securities that have quoted prices in active markets. Each pricing service has its own proprietary method for determining the fair value of securities that are not actively

traded. In general, these methods involve the use of “matrix pricing” in which the independent pricing service uses observable market inputs, including, but not limited to, reported trades, benchmark yields, broker-dealer quotes, interest rates, prepayment speeds, default rates and such other inputs as are available from market sources to determine a reasonable fair value.

All of the Company’s securities classified as Level 3, other than investments in other invested assets, are valued based on unadjusted broker-dealer quotes. This includes less liquid securities such as lower quality asset-backed securities, commercial mortgage-backed securities and residential mortgage-backed securities. The primary valuation inputs include monthly payment information, the probability of default, loss severity rates and estimated prepayment rates. Significant changes in these inputs in isolation would result in a significantly lower or higher fair value measurement. In general, a change in the assumption of the

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probability of default is accompanied by a directionally similar change in the assumption used for the loss severity in an event of default and prepayment rates.

The Company records the unadjusted price provided and validates this price through a process that includes, but is not limited to, monthly and/or quarterly: (i) comparison of prices between two independent sources, with significant differences requiring additional price sources; (ii) quantitative analysis (e.g., comparing the quarterly return for each managed portfolio to their target benchmark, with significant differences identified and investigated); (iii) evaluation of methodologies used by external parties to calculate fair value, including a review of the inputs used for pricing; (iv) comparing the price to the Company's knowledge of the current investment market; and (v) back-testing, which includes randomly selecting purchased or sold securities and comparing the executed prices to the fair value estimates from the pricing service. In addition to internal controls, management relies on the effectiveness of the valuation controls in place at the Company's external investment accounting service provider (supported by a Statement on Standards for Attestation Engagements No. 16 report) in conjunction with regular discussion and analysis of the investment portfolio's structure and performance.

## 7. RESERVE FOR LOSSES AND LOSS EXPENSES

The reserve for losses and loss expenses consists of the following:

|   | March 31,<br>2015 | December 31,<br>2014 |
|---|-------------------|----------------------|
| Outstanding loss reserves                     | \$1,414,512       | \$1,514,051          |
| Reserves for losses incurred but not reported | 4,490,598         | 4,367,114            |
| Reserve for losses and loss expenses          | \$5,905,110       | \$5,881,165          |

The table below is a reconciliation of the beginning and ending liability for unpaid losses and loss expenses. Losses incurred and paid are reflected net of reinsurance recoverables.

|  | Three Months Ended |              |
|--|--------------------|--------------|
|  | March 31,<br>2015  | 2014         |
| Gross liability at beginning of period         | \$5,881,165        | \$5,766,529  |
| Reinsurance recoverable at beginning of period | (1,340,256 )       | (1,234,504 ) |
| Net liability at beginning of period           | 4,540,909          | 4,532,025    |
| Net losses incurred related to:                |                    |              |
| Current year                                   | 388,817            | 324,147      |
| Prior years                                    | (63,641 )          | (48,861 )    |
| Total incurred                                 | 325,176            | 275,286      |
| Net paid losses related to:                    |                    |              |
| Current year                                   | 6,557              | 3,743        |
| Prior years                                    | 293,098            | 228,594      |
| Total paid                                     | 299,655            | 232,337      |
| Foreign exchange revaluation                   | (11,631 )          | 1,299        |
| Net liability at end of period                 | 4,554,799          | 4,576,273    |
| Reinsurance recoverable at end of period       | 1,350,311          | 1,280,525    |
| Gross liability at end of period               | \$5,905,110        | \$5,856,798  |

For the three months ended March 31, 2015, the Company recorded net favorable prior year reserve development in each of its operating segments due to actual loss emergence being lower than initially expected. The net favorable prior year reserve development in the North American Insurance segment was primarily related to the professional liability and general casualty lines of business, partially offset by net unfavorable prior year reserve development in the healthcare line of business. The Global Markets Insurance segment had favorable prior year reserve development across most major lines of business. The net

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favorable prior year reserve development in the Reinsurance segment was primarily related to the property reinsurance and casualty reinsurance lines of business partially offset by unfavorable reserve development in the specialty line of business.

For the three months ended March 31, 2014, the Company recorded net favorable prior year reserve development in each of its operating segments due to actual loss emergence being lower than initially expected. The net favorable prior year reserve development in the North American Insurance segment primarily related to the professional liability, general casualty and general property lines of business, partially offset by net unfavorable prior year reserve development in the healthcare line of business. The Global Markets Insurance segment had favorable prior year reserve development across all major lines of business. The net favorable prior year reserve development in the Reinsurance segment was primarily due to benign property loss activity.

While the Company has experienced favorable reserve development in its insurance and reinsurance lines, there is no assurance that conditions and trends that have affected the development of liabilities in the past will continue. It is not appropriate to extrapolate future redundancies based on prior years' development. The methodology of estimating loss reserves is periodically reviewed to ensure that the key assumptions used in the actuarial models continue to be appropriate.

## 8. INCOME TAXES

Under Swiss law, a resident company is subject to income tax at the federal, cantonal and communal levels that is levied on net income. Income attributable to permanent establishments or real estate located abroad is excluded from the Swiss tax base. Allied World Switzerland is a holding company and, therefore, is exempt from cantonal and communal income tax. As a result, Allied World Switzerland is subject to Swiss income tax only at the federal level. Allied World Switzerland is a resident of the Canton of Zug and, as such, is subject to an annual cantonal and communal capital tax on the taxable equity of Allied World Switzerland. Allied World Switzerland has a Swiss operating company resident in the Canton of Zug. The operating company is subject to federal, cantonal and communal income tax and to annual cantonal and communal capital tax.

Under current Bermuda law, Allied World Assurance Company Holdings, Ltd ("Allied World Bermuda") and its Bermuda subsidiaries are not required to pay taxes in Bermuda on either income or capital gains. Allied World Bermuda and Allied World Assurance Company, Ltd have received an assurance from the Bermuda Minister of Finance under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that in the event of any such taxes being imposed, Allied World Bermuda and Allied World Assurance Company, Ltd will be exempted until March 2035.

Certain subsidiaries of Allied World Switzerland file U.S. federal income tax returns and various U.S. state income tax returns, as well as income tax returns in Canada, Hong Kong, Ireland, Singapore, Switzerland and the United Kingdom. The U.S. Internal Revenue Service is currently conducting an audit of the 2012 tax return of the Company's U.S. subsidiaries. To the best of the Company's knowledge, there are no other examinations pending by any other tax authority.

Management has deemed all material tax positions to have a greater than 50% likelihood of being sustained based on technical merits if challenged. The Company does not expect any material unrecognized tax benefits within 12 months of March 31, 2015.

9. SHAREHOLDERS' EQUITY

a) Authorized shares

The issued share capital consists of the following:

|  | March 31,<br>2015 | December 31,<br>2014 |
|--|-------------------|----------------------|
| Common shares issued and fully paid, 2015 and 2014: CHF 4.10 per share | 100,299,454       | 100,775,256          |
| Share capital at end of period   | \$406,088         | \$408,020            |



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|   | Three Months<br>Ended<br>March 31,<br>2015 |
|---|--|
| Shares issued at beginning of period          | 100,775,256                                |
| Shares canceled                               | (475,802 )                                 |
| Total shares issued at end of period          | 100,299,454                                |
| Treasury shares issued at beginning of period | 4,579,774                                  |
| Shares repurchased                            | 1,271,213                                  |
| Shares issued out of treasury                 | (520,400 )                                 |
| Shares canceled                               | (475,802 )                                 |
| Total treasury shares at end of period        | 4,854,785                                  |
| Total shares outstanding at end of period     | 95,444,669                                 |

During the three months ended March 31, 2015, 475,802 shares repurchased and designated for cancellation were constructively retired and canceled.

## b) Dividends

The Company paid the following dividends during the three months ended March 31, 2015:

| Dividend Paid   | Dividend<br>Per<br>Share | Total<br>Amount<br>Paid |
|-----------------|--------------------------|-------------------------|
| January 2, 2015 | \$0.225                  | \$21,669                |

On May 1, 2014, the shareholders approved the Company's proposal to pay cash dividends in the form of a distribution out of general legal reserve from capital contributions. The distribution amount was paid to shareholders in quarterly dividends of \$0.225 per share. The first dividend was on July 2, 2014, the second dividend was on October 2, 2014, the third dividend was on January 2, 2015 and the last quarterly dividend on April 2, 2015.

## c) Share Repurchases

On May 1, 2014, the shareholders approved a share repurchase program in order for the Company to repurchase up to \$500,000 of Allied World Switzerland's common shares. Repurchases may be effected from time to time through open market purchases, privately negotiated transactions, tender offers or otherwise. The timing, form and amount of the share repurchases under the program will depend on a variety of factors, including market conditions, the Company's capital position, legal requirements and other factors. Under the terms of the share repurchase program, the first three million of common shares repurchased will remain in treasury and will be used by Allied World Switzerland to satisfy share delivery obligations under its equity-based compensation plans. Any additional common shares repurchased will be designated for cancellation at acquisition and will be canceled upon shareholder approval. Shares repurchased and designated for cancellation are constructively retired and recorded as a share cancellation.

The Company's share repurchases were as follows:

Three Months Ended  
March 31,

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|                                  | 2015      | 2014      |
|----------------------------------|-----------|-----------|
| Common shares repurchased        | 1,271,213 | 2,012,196 |
| Total cost of shares repurchased | \$50,949  | \$68,659  |
| Average price per share          | \$40.08   | \$34.12   |

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## 10. EMPLOYEE BENEFIT PLANS

## a) Restricted stock units and performance-based equity awards

Restricted stock units ("RSUs") vest pro-rata over four years from the date of grant. The compensation expense for the RSUs is based on the fair market value of Allied World Switzerland's common shares at the date of grant. The Company estimates the expected forfeitures of RSUs at the date of grant and recognizes compensation expense only for those awards that the Company expects to vest. The forfeiture assumption is ultimately adjusted to the actual forfeiture rate.

Performance-based equity awards represent the right to receive a number of common shares in the future, based upon the achievement of established performance criteria during an applicable performance period. For the performance-based equity awards granted in 2015, 2014 and 2013, the Company anticipates that the performance goals are likely to be achieved. Based on the performance goals, the performance-based equity awards granted in 2015, 2014 and 2013 are expensed at 100%, 100% and 110%, respectively, of the fair value of Allied World Switzerland's common shares on the date of grant. The expense is recognized over the performance period.

The activity related to the Company's RSUs awards is as follows:

|                                    | Three Months Ended March 31,<br>2015 |   |
|------------------------------------|--------------------------------------|---|
|                                    | Number of<br>Awards                  | Weighted<br>Average<br>Grant Date<br>Fair Value |
| Outstanding at beginning of period | 502,506                              | \$32.10   |
| RSUs granted                       | 502,543                              | 40.24   |
| RSUs forfeited                     | (1,458                               | ) (24.02  |
| RSUs fully vested                  | (159,984                             | ) (30.59  |
| Outstanding at end of period       | 843,607                              | \$37.25   |

The activity related to the Company's performance-based equity awards is as follows:

|  | Three Months Ended March 31,<br>2015 |   |
|--|--------------------------------------|---|
|  | Number of<br>Awards                  | Weighted<br>Average<br>Grant Date<br>Fair Value |
| Outstanding at beginning of period                                   | 616,641                              | \$27.52   |
| Performance-based equity awards granted                              | 234,361                              | 40.24   |
| Additional awards granted due to achievement of performance criteria | 91,737                               | 22.29   |
| Performance-based equity awards fully vested                         | (346,515                             | ) (22.29  |
| Outstanding at end of period   | 596,224                              | \$34.76   |

## b) Cash-equivalent stock awards

As part of the Company's annual year-end compensation awards, the Company granted both awards classified as equity and cash-equivalent stock awards. The cash-equivalent awards were granted to employees who received RSUs and performance-based equity awards in tandem with stock-based awards. The cash-equivalent RSU awards vest pro-rata over four years from the date of grant. The cash-equivalent performance-based equity awards vest after a three-year performance period. The amount payable per unit awarded will be equal to the price per share of Allied World Switzerland's common shares, and as such the Company measures the value of the award each reporting period based on the period-ending share price. The effects of changes in the share price at each period-end during the service period are recognized as changes in compensation expense ratably over the service period. The liability is included in "accounts payable and accrued liabilities" in the consolidated balance sheets and changes in the liability are recorded in "general and administrative expenses" in the consolidated income statements.

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The activity related to the Company's cash-equivalent RSUs and performance-based awards is as follows:

| Three Months Ended March 31, 2015                                    | RSU's            |  | Performance-based Awards |  |
|--|------------------|--|--------------------------|--|
|  | Number of Awards | Weighted Average Grant Date Fair Value | Number of Awards         | Weighted Average Grant Date Fair Value |
| Outstanding at beginning of period                                   | 1,654,064        | \$27.99                                | 924,906                  | 27.52                                  |
| Granted  | 325,805          | 40.24                                  | 156,238                  | 40.24                                  |
| Additional awards granted due to achievement of performance criteria | —                | —                                      | 137,585                  | 22.29                                  |
| Forfeited  | (9,525 )         | (26.90 )                               | (1,404 )                 | (22.29 )                               |
| Fully vested   | (649,102 )       | (26.17 )                               | (519,725 )               | (22.29 )                               |
| Outstanding at end of period   | 1,321,242        | \$31.92                                | 697,600                  | \$33.25                                |

## c) Total Stock Related Compensation Expense

The following table shows the total stock-related compensation expense relating to the stock options, RSUs and cash equivalent awards.

|  | Three Months Ended March 31, |         |
|--|------------------------------|---------|
|  | 2015                         | 2014    |
| Stock options                            | \$277                        | \$727   |
| RSUs and performance-based equity awards | 3,725                        | 3,513   |
| Cash-equivalent stock awards             | 12,523                       | 4,629   |
| Total                                    | \$16,525                     | \$8,869 |

## 11. EARNINGS PER SHARE

The following table sets forth the comparison of basic and diluted earnings per share:

|  | Three Months Ended March 31, |            |
|--|------------------------------|------------|
|  | 2015                         | 2014       |
| Basic earnings per share:                  |                              |            |
| Net income                                 | \$124,356                    | \$176,972  |
| Weighted average common shares outstanding | 95,935,551                   | 99,545,187 |
| Basic earnings per share                   | \$1.30                       | \$1.78     |
|  |                              |            |
|  | Three Months Ended March 31, |            |
|  | 2015                         | 2014       |
| Diluted earnings per share:                |                              |            |
| Net income                                 | \$124,356                    | \$176,972  |
| Weighted average common shares outstanding | 95,935,551                   | 99,545,187 |
| Share equivalents:                         |                              |            |
| Stock options                              | 1,116,871                    | 1,463,958  |

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|   |            |             |
|---|------------|-------------|
| RSUs and performance-based equity awards  | 509,971    | 565,611     |
| Employee share purchase plan  | 14,636     | 9,906       |
| Weighted average common shares and common share equivalents outstanding - diluted | 97,577,029 | 101,584,662 |
| Diluted earnings per share  | \$1.27     | \$1.74      |

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For the three months ended March 31, 2015 and 2014, a weighted average of 175,175 and 75 RSUs, respectively, were considered anti-dilutive and were therefore excluded from the calculation of the diluted earnings per share.

## 12. SEGMENT INFORMATION

The determination of reportable segments is based on how senior management monitors the Company's underwriting operations. Management monitors the performance of its direct underwriting operations based on the geographic location of the Company's offices, the markets and customers served and the type of accounts written. The Company is currently organized into three operating segments: North American Insurance, Global Markets Insurance and Reinsurance. All product lines fall within these classifications.

The North American Insurance segment includes the Company's direct specialty insurance operations in the United States, Bermuda and Canada, as well as the Company's claim administration services operation. This segment provides both direct property and casualty insurance primarily to North American domiciled accounts. The Global Markets Insurance segment includes the Company's insurance operations in Europe and Asia Pacific, which includes offices in Australia, Hong Kong, Singapore and a Lloyd's coverholder operation in Miami, which services business from Latin America and the Caribbean. This segment provides both direct property and casualty insurance primarily to non-North American domiciled accounts. The Reinsurance segment includes the Company's reinsurance operations in the United States, Bermuda, Europe and Singapore. This segment provides reinsurance of property, general casualty, professional liability, specialty lines and property catastrophe coverages written by insurance companies. The Company presently writes reinsurance on both a treaty and a facultative basis, targeting several niche reinsurance markets.

Responsibility and accountability for the results of underwriting operations are assigned by major line of business within each segment. Because the Company does not manage its assets by segment, investment income, interest expense and total assets are not allocated to individual reportable segments. General and administrative expenses are allocated to segments based on various factors, including staff count and each segment's proportional share of gross premiums written.

The Company measures its segment profit or loss as underwriting income or loss plus other insurance-related income and expenses, which may include the net earnings from our claims administration services operations and other income or expense that is not directly related to our underwriting operations. Management measures results for each segment's underwriting income on the basis of the "loss and loss expense ratio," "acquisition cost ratio," "general and administrative expense ratio," "expense ratio" and the "combined ratio." The "loss and loss expense ratio" is derived by dividing net losses and loss expenses by net premiums earned. The "acquisition cost ratio" is derived by dividing acquisition costs by net premiums earned. The "general and administrative expense ratio" is derived by dividing general and administrative expenses by net premiums earned. The expense ratio is the sum of the "acquisition cost ratio" and the "general and administrative expense ratio". The "combined ratio" is the sum of the "loss and loss expense ratio," the "acquisition cost ratio" and the "general and administrative expense ratio."

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The following tables provide a summary of the segment results:

| Three Months Ended March 31, 2015        | North American<br>Insurance | Global Markets<br>Insurance | Reinsurance | Total      |   |
|--|-----------------------------|-----------------------------|-------------|------------|---|
| Gross premiums written                   | \$380,767                   | \$60,562                    | \$439,285   | \$880,614  |   |
| Net premiums written                     | 296,883                     | 42,895                      | 432,750     | 772,528    |   |
| Net premiums earned                      | 312,970                     | 50,040                      | 205,538     | 568,548    |   |
| Net losses and loss expenses             | (195,479 )                  | (20,510 )                   | (109,187 )  | (325,176 ) | ) |
| Acquisition costs                        | (31,032 )                   | (7,008 )                    | (40,659 )   | (78,699 )  | ) |
| General and administrative expenses      | (59,288 )                   | (18,025 )                   | (19,825 )   | (97,138 )  | ) |
| Underwriting income                      | 27,171                      | 4,497                       | 35,867      | 67,535     |   |
| Other insurance-related income           | 854                         | —                           | —           | 854        |   |
| Other insurance-related expenses         | (855 )                      | (968 )                      | —           | (1,823 )   | ) |
| Segment income                           | 27,170                      | 3,529                       | 35,867      | 66,566     |   |
| Net investment income                    |                             |                             |             | 44,551     |   |
| Net realized investment gains            |                             |                             |             | 45,025     |   |
| Amortization of intangible assets        |                             |                             |             | (633 )     | ) |
| Interest expense                         |                             |                             |             | (14,337 )  | ) |
| Foreign exchange loss                    |                             |                             |             | (9,897 )   | ) |
| Income before income taxes               |                             |                             |             | \$131,275  |   |
| Loss and loss expense ratio              | 62.5                        | % 41.0                      | % 53.1      | % 57.2     | % |
| Acquisition cost ratio                   | 9.9                         | % 14.0                      | % 19.8      | % 13.8     | % |
| General and administrative expense ratio | 18.9                        | % 36.0                      | % 9.6       | % 17.1     | % |
| Expense ratio                            | 28.8                        | % 50.0                      | % 29.4      | % 30.9     | % |
| Combined ratio                           | 91.3                        | % 91.0                      | % 82.5      | % 88.1     | % |



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| Three Months Ended March 31, 2014        | North American<br>Insurance | Global Markets<br>Insurance | Reinsurance | Total      |   |
|--|-----------------------------|-----------------------------|-------------|------------|---|
| Gross premiums written                   | \$345,912                   | \$58,397                    | \$497,084   | \$901,393  |   |
| Net premiums written                     | 247,152                     | 31,047                      | 493,415     | 771,614    |   |
| Net premiums earned                      | 265,451                     | 35,011                      | 229,823     | 530,285    |   |
| Net losses and loss expenses             | (161,172 )                  | (4,389 )                    | (109,725 )  | (275,286 ) |   |
| Acquisition costs                        | (23,675 )                   | (2,879 )                    | (41,168 )   | (67,722 )  |   |
| General and administrative expenses      | (47,615 )                   | (14,582 )                   | (18,143 )   | (80,340 )  |   |
| Underwriting income                      | 32,989                      | 13,161                      | 60,787      | 106,937    |   |
| Other insurance-related income           | —                           | —                           | —           | —          |   |
| Other insurance-related expenses         | —                           | —                           | —           | —          |   |
| Segment income                           | 32,989                      | 13,161                      | 60,787      | 106,937    |   |
| Net investment income                    |                             |                             |             | 47,619     |   |
| Net realized investment gains            |                             |                             |             | 54,205     |   |
| Amortization of intangible assets        |                             |                             |             | (633 )     |   |
| Interest expense                         |                             |                             |             | (14,534 )  |   |
| Foreign exchange loss                    |                             |                             |             | (49 )      |   |
| Income before income taxes               |                             |                             |             | \$193,545  |   |
| Loss and loss expense ratio              | 60.7                        | % 12.5                      | % 47.7      | % 51.9     | % |
| Acquisition cost ratio                   | 8.9                         | % 8.2                       | % 17.9      | % 12.8     | % |
| General and administrative expense ratio | 17.9                        | % 41.6                      | % 7.9       | % 15.2     | % |
| Expense ratio                            | 26.8                        | % 49.8                      | % 25.8      | % 28.0     | % |
| Combined ratio                           | 87.5                        | % 62.3                      | % 73.5      | % 79.9     | % |

The following table shows an analysis of the Company's gross premiums written by geographic location of the Company's subsidiaries and branches. All intercompany premiums have been eliminated.

|                              | Three Months Ended<br>March 31, |           |
|------------------------------|---------------------------------|-----------|
|                              | 2015                            | 2014      |
| United States                | \$536,632                       | \$520,773 |
| Bermuda                      | 196,628                         | 229,631   |
| Europe                       | 103,969                         | 103,336   |
| Asia Pacific                 | 40,058                          | 46,823    |
| Canada                       | 3,327                           | 830       |
| Total gross premiums written | \$880,614                       | \$901,393 |

Europe includes gross premiums written attributable to Switzerland of \$40,383 and \$44,293 for the three months ended March 31, 2015 and 2014, respectively.

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The following table shows the Company's net premiums earned by line of business for each segment for the three months ended March 31, 2015 and 2014, respectively.

|                           | Three Months Ended |            |
|---------------------------|--------------------|------------|
|                           | March 31,          |            |
|                           | 2015               | 2014       |
| North American Insurance: |                    |            |
| General casualty          | \$ 104,924         | \$ 76,302  |
| Professional liability    | 78,916             | 64,271     |
| Healthcare                | 38,041             | 42,493     |
| Programs                  | 34,147             | 30,469     |
| General property          | 28,000             | 34,939     |
| Inland marine             | 13,349             | 8,890      |
| Environmental             | 6,822              | 4,586      |
| Other                     | 8,771              | 3,501      |
| Total                     | 312,970            | 265,451    |
| Global Markets Insurance: |                    |            |
| Professional liability    | 19,503             | 11,720     |
| General property          | 8,232              | 8,239      |
| Aviation                  | 5,953              | 5,637      |
| General casualty          | 5,913              | 2,693      |
| Trade credit              | 4,276              | 4,012      |
| Healthcare                | 3,606              | 2,502      |
| Other                     | 2,557              | 208        |
| Total                     | 50,040             | 35,011     |
| Reinsurance:              |                    |            |
| Property                  | 104,351            | 137,084    |
| Specialty                 | 44,285             | 45,225     |
| Casualty                  | 56,902             | 47,514     |
| Total                     | 205,538            | 229,823    |
| Total net premiums earned | \$ 568,548         | \$ 530,285 |

## 13. COMMITMENTS AND CONTINGENCIES

The Company, in common with the insurance industry in general, is subject to litigation and arbitration in the normal course of its business. These legal proceedings generally relate to claims asserted by or against the Company in the ordinary course of insurance or reinsurance operations. Estimated amounts payable under these proceedings are included in the reserve for losses and loss expenses in the Company's consolidated balance sheets. As of March 31, 2015, the Company was not a party to any material legal proceedings arising outside the ordinary course of business that management believes will have a material adverse effect on the Company's results of operations, financial position or cash flow.



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## 14. CONDENSED CONSOLIDATED GUARANTOR FINANCIAL STATEMENTS

The following tables present unaudited condensed consolidating financial information as of March 31, 2015 and December 31, 2014 and for the three months ended March 31, 2015 and 2014 for Allied World Switzerland (the “Parent Guarantor”) and Allied World Bermuda (the “Subsidiary Issuer”). The Subsidiary Issuer is a direct, 100%-owned subsidiary of the Parent Guarantor. Investments in subsidiaries are accounted for by the Parent Guarantor under the equity method for purposes of the supplemental consolidating presentation. Earnings of subsidiaries are reflected in the Parent Guarantor’s investment accounts and earnings. The Parent Guarantor fully and unconditionally guarantees the senior notes issued by the Subsidiary Issuer.

## Unaudited Condensed Consolidating Balance Sheet:

| As of March 31, 2015                          | Allied World<br>Switzerland<br>(Parent<br>Guarantor) | Allied World<br>Bermuda<br>(Subsidiary<br>Issuer) | Other Allied<br>World<br>Subsidiaries | Consolidating<br>Adjustments | Allied World<br>Switzerland<br>Consolidated |
|---|--|---|---------------------------------------|------------------------------|---|
| <b>ASSETS:</b>                                |  |   |                                       |                              |   |
| Investments                                   | \$—  | \$—   | \$8,071,956                           | \$—                          | \$8,071,956                                 |
| Cash and cash equivalents                     | 36,499   | 2,109   | 476,462                               | —                            | 515,070                                     |
| Insurance balances receivable                 | —  | —   | 773,394                               | —                            | 773,394                                     |
| Funds held                                    | —  | —   | 479,909                               | —                            | 479,909                                     |
| Reinsurance recoverable                       | —  | —   | 1,350,311                             | —                            | 1,350,311                                   |
| Reinsurance recoverable on paid losses        | —  | —   | 107,071                               | —                            | 107,071                                     |
| Net deferred acquisition costs                | —  | —   | 187,246                               | —                            | 187,246                                     |
| Goodwill and intangible assets                | —  | —   | 329,999                               | —                            | 329,999                                     |
| Balances receivable on sale of<br>investments | —  | —   | 46,822                                | —                            | 46,822                                      |
| Investments in subsidiaries                   | 3,600,273  | 4,170,400   | —                                     | (7,770,673 )                 | —   |
| Due from subsidiaries                         | 226,081  | 27,963  | 16,454                                | (270,498 )                   | —   |
| Other assets                                  | 2,128  | 2,838   | 751,042                               | —                            | 756,008                                     |
| Total assets                                  | \$3,864,981  | \$4,203,310                                       | \$12,590,666                          | \$(8,041,171 )               | \$12,617,786                                |
| <b>LIABILITIES:</b>                           |  |   |                                       |                              |   |
| Reserve for losses and loss expenses          | \$—  | \$—   | \$5,905,110                           | \$—                          | \$5,905,110                                 |
| Unearned premiums                             | —  | —   | 1,717,399                             | —                            | 1,717,399                                   |
| Reinsurance balances payable                  | —  | —   | 184,322                               | —                            | 184,322                                     |
| Balances due on purchases of<br>investments   | —  | —   | 34,396                                | —                            | 34,396                                      |
| Senior notes                                  | —  | 798,881   | —                                     | —                            | 798,881                                     |
| Other long-term debt                          | —  | —   | 19,730                                | —                            | 19,730                                      |
| Due to subsidiaries                           | 10,009   | 6,445   | 254,044                               | (270,498 )                   | —   |
| Other liabilities                             | 25,905   | 14,303  | 88,673                                | —                            | 128,881                                     |
| Total liabilities                             | 35,914   | 819,629   | 8,203,674                             | (270,498 )                   | 8,788,719                                   |
| Total shareholders’ equity                    | 3,829,067  | 3,383,681   | 4,386,992                             | (7,770,673 )                 | 3,829,067                                   |
| Total liabilities and shareholders’ equity    | \$3,864,981  | \$4,203,310                                       | \$12,590,666                          | \$(8,041,171 )               | \$12,617,786                                |



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## ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands, except share, per share, percentage and ratio information)

| As of December 31, 2014                       | Allied World<br>Switzerland<br>(Parent<br>Guarantor) | Allied World<br>Bermuda<br>(Subsidiary<br>Issuer) | Other Allied<br>World<br>Subsidiaries | Consolidating<br>Adjustments | Allied World<br>Switzerland<br>Consolidated |
|---|--|---|---------------------------------------|------------------------------|---|
| <b>ASSETS:</b>                                |  |   |                                       |                              |   |
| Investments                                   | \$—  | \$—   | \$7,868,682                           | \$—                          | \$7,868,682                                 |
| Cash and cash equivalents                     | 32,579   | 1,734   | 555,026                               | —                            | 589,339                                     |
| Insurance balances receivable                 | —  | —   | 664,815                               | —                            | 664,815                                     |
| Funds held                                    | —  | —   | 724,021                               | —                            | 724,021                                     |
| Reinsurance recoverable                       | —  | —   | 1,340,256                             | —                            | 1,340,256                                   |
| Reinsurance recoverable on paid losses        | —  | —   | 86,075                                | —                            | 86,075                                      |
| Net deferred acquisition costs                | —  | —   | 151,546                               | —                            | 151,546                                     |
| Goodwill and intangible assets                | —  | —   | 324,556                               | —                            | 324,556                                     |
| Balances receivable on sale of<br>investments | —  | —   | 47,149                                | —                            | 47,149                                      |
| Investments in subsidiaries                   | 3,629,301  | 4,218,028   | —                                     | (7,847,329 )                 | —   |
| Due from subsidiaries                         | 147,072  | 19,190  | 14,396                                | (180,658 )                   | —   |
| Other assets                                  | 1,470  | 3,192   | 620,462                               | —                            | 625,124                                     |
| Total assets                                  | \$3,810,422  | \$4,242,144                                       | \$12,396,984                          | \$(8,027,987 )               | \$12,421,563                                |
| <b>LIABILITIES:</b>                           |  |   |                                       |                              |   |
| Reserve for losses and loss expenses          | \$—  | \$—   | \$5,881,165                           | \$—                          | \$5,881,165                                 |
| Unearned premiums                             | —  | —   | 1,555,313                             | —                            | 1,555,313                                   |
| Reinsurance balances payable                  | —  | —   | 180,060                               | —                            | 180,060                                     |
| Balances due on purchases of<br>investments   | —  | —   | 5,428                                 | —                            | 5,428                                       |
| Senior notes                                  | —  | 798,802   | —                                     | —                            | 798,802                                     |
| Other long-term debt                          | —  | —   | 19,213                                | —                            | 19,213                                      |
| Due to subsidiaries                           | 7,599  | 6,797   | 166,262                               | (180,658 )                   | —   |
| Other liabilities                             | 24,532   | 19,618  | 159,141                               | —                            | 203,291                                     |
| Total liabilities                             | 32,131   | 825,217   | 7,966,582                             | (180,658 )                   | 8,643,272                                   |
| Total shareholders' equity                    | 3,778,291  | 3,416,927   | 4,430,402                             | (7,847,329 )                 | 3,778,291                                   |
| Total liabilities and shareholders' equity    | \$3,810,422  | \$4,242,144                                       | \$12,396,984                          | \$(8,027,987 )               | \$12,421,563                                |

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## ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands, except share, per share, percentage and ratio information)

## Unaudited Condensed Consolidating Statement of Operations and Comprehensive Income:

| Three Months Ended March 31, 2015               | Allied World<br>Switzerland<br>(Parent<br>Guarantor) | Allied World<br>Bermuda<br>(Subsidiary<br>Issuer) | Other Allied<br>World<br>Subsidiaries | Consolidating<br>Adjustments | Allied World<br>Switzerland<br>Consolidated |
|---|--|---|---------------------------------------|------------------------------|---|
| Net premiums earned                             | \$—  | \$—   | \$568,548                             | \$—                          | \$568,548                                   |
| Net investment income                           | 2  | —   | 44,549                                | —                            | 44,551                                      |
| Net realized investment losses                  | —  | —   | 45,025                                | —                            | 45,025                                      |
| Other income                                    | —  | —   | 854                                   | —                            | 854   |
| Net losses and loss expenses                    | —  | —   | (325,176 )                            | —                            | (325,176 )                                  |
| Acquisition costs                               | —  | —   | (78,699 )                             | —                            | (78,699 )                                   |
| General and administrative expenses             | (9,462 )   | 240   | (87,916 )                             | —                            | (97,138 )                                   |
| Other expense                                   | —  | —   | (1,823 )                              | —                            | (1,823 )                                    |
| Amortization of intangible assets               | —  | —   | (633 )                                | —                            | (633 )                                      |
| Interest expense                                | —  | (13,866 )   | (471 )                                | —                            | (14,337 )                                   |
| Foreign exchange gain (loss)                    | 5  | 10  | (9,912 )                              | —                            | (9,897 )                                    |
| Income tax (expense) benefit                    | (639 )   | —   | (6,280 )                              | —                            | (6,919 )                                    |
| Equity in earnings of consolidated subsidiaries | 134,450  | 143,696   | —                                     | (278,146 )                   | —   |
| NET INCOME (LOSS)                               | \$124,356  | \$130,080   | \$148,066                             | \$(278,146 )                 | \$124,356                                   |
| Other comprehensive income                      | —  | —   | —                                     | —                            | —   |
| COMPREHENSIVE INCOME (LOSS)                     | \$124,356  | \$130,080   | \$148,066                             | \$(278,146 )                 | \$124,356                                   |
| Three Months Ended March 31, 2014               | Allied World<br>Switzerland<br>(Parent<br>Guarantor) | Allied World<br>Bermuda<br>(Subsidiary<br>Issuer) | Other Allied<br>World<br>Subsidiaries | Consolidating<br>Adjustments | Allied World<br>Switzerland<br>Consolidated |
| Net premiums earned                             | \$—  | \$—   | \$530,285                             | \$—                          | \$530,285                                   |
| Net investment income                           | 2  | —   | 47,617                                | —                            | 47,619                                      |
| Net realized investment gains                   | —  | —   | 54,205                                | —                            | 54,205                                      |
| Other income                                    | —  | —   | —                                     | —                            | —   |
| Net losses and loss expenses                    | —  | —   | (275,286 )                            | —                            | (275,286 )                                  |
| Acquisition costs                               | —  | —   | (67,722 )                             | —                            | (67,722 )                                   |
| General and administrative expenses             | (8,914 )   | (2,391 )  | (69,035 )                             | —                            | (80,340 )                                   |
| Other expense                                   | —  | —   | —                                     | —                            | —   |
| Amortization of intangible assets               | —  | —   | (633 )                                | —                            | (633 )                                      |
| Interest expense                                | —  | (13,848 )   | (686 )                                | —                            | (14,534 )                                   |
| Foreign exchange gain (loss)                    | (2 )   | 33  | (80 )                                 | —                            | (49 )                                       |
| Income tax (expense) benefit                    | (409 )   | —   | (16,164 )                             | —                            | (16,573 )                                   |
| Equity in earnings of consolidated subsidiaries | 186,295  | 199,007   | —                                     | (385,302 )                   | —   |
| NET INCOME (LOSS)                               | \$176,972  | \$182,801   | \$202,501                             | \$(385,302 )                 | \$176,972                                   |
| Other comprehensive income                      | —  | —   | —                                     | —                            | —   |
| COMPREHENSIVE INCOME (LOSS)                     | \$176,972  | \$182,801   | \$202,501                             | \$(385,302 )                 | \$176,972                                   |





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## ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands, except share, per share, percentage and ratio information)

## Unaudited Condensed Consolidating Statement of Cash Flows:

| Three Months Ended March 31, 2015                         | Allied World<br>Switzerland<br>(Parent<br>Guarantor) | Allied World<br>Bermuda<br>(Subsidiary<br>Issuer) | Other Allied<br>World<br>Subsidiaries | Consolidating<br>Adjustments | Allied World<br>Switzerland<br>Consolidated |
|---|--|---|---------------------------------------|------------------------------|---|
| CASH FLOWS PROVIDED BY (USED<br>IN) OPERATING ACTIVITIES  | \$71,639   | \$80,375  | \$339,583                             | \$(179,000 )                 | \$312,597                                   |
| CASH FLOWS PROVIDED BY (USED<br>IN) INVESTING ACTIVITIES: |  |   |                                       |                              |   |
| Purchases trading securities                              | —  | —   | (1,723,443 )                          | —                            | (1,723,443 )                                |
| Purchases of other invested assets                        | —  | —   | (233,252 )                            | —                            | (233,252 )                                  |
| Sales of trading securities                               | —  | —   | 1,561,890                             | —                            | 1,561,890                                   |
| Sales of other invested assets                            | —  | —   | 56,535                                | —                            | 56,535                                      |
| Other   | —  | —   | 19,123                                | —                            | 19,123                                      |
| Net cash provided by (used in) investing<br>activities    | —  | —   | (319,147 )                            | —                            | (319,147 )                                  |
| CASH FLOWS PROVIDED BY (USED<br>IN) FINANCING ACTIVITIES: |  |   |                                       |                              |   |
| Dividends paid  | (21,669 )  | —   | —                                     | —                            | (21,669 )                                   |
| Intercompany dividends paid                               | —  | (80,000 )   | (99,000 )                             | 179,000                      | —   |
| Proceeds from the exercise of stock<br>options            | 4,223  | —   | —                                     | —                            | 4,223                                       |
| Share repurchases   | (50,273 )  | —   | —                                     | —                            | (50,273 )                                   |
| Net cash provided by (used in) financing<br>activities    | (67,719 )  | (80,000 )   | (99,000 )                             | 179,000                      | (67,719 )                                   |
| NET INCREASE (DECREASE) IN<br>CASH AND CASH EQUIVALENTS   | 3,920  | 375   | (78,564 )                             | —                            | (74,269 )                                   |
| CASH AND CASH EQUIVALENTS,<br>BEGINNING OF PERIOD         | 32,579   | 1,734   | 555,026                               | —                            | 589,339                                     |
| CASH AND CASH EQUIVALENTS,<br>END OF PERIOD               | \$36,499   | \$2,109   | \$476,462                             | \$—                          | \$515,070                                   |

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## ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands, except share, per share, percentage and ratio information)

| Three Months Ended March 31, 2014                         | Allied World<br>Switzerland<br>(Parent<br>Guarantor) | Allied World<br>Bermuda<br>(Subsidiary<br>Issuer) | Other Allied<br>World<br>Subsidiaries | Consolidating<br>Adjustments | Allied World<br>Switzerland<br>Consolidated |
|---|--|---|---------------------------------------|------------------------------|---|
| CASH FLOWS PROVIDED BY (USED<br>IN) OPERATING ACTIVITIES: | \$94,128   | \$92,272  | \$324,382                             | \$(206,000 )                 | \$304,782                                   |
| CASH FLOWS PROVIDED BY (USED<br>IN) INVESTING ACTIVITIES: |  |   |                                       |                              |   |
| Purchases of trading securities                           | —  | —   | (1,568,993 )                          | —                            | (1,568,993 )                                |
| Purchases of other invested assets                        | —  | —   | (779,934 )                            | —                            | (779,934 )                                  |
| Sales of trading securities                               | —  | —   | 1,494,648                             | —                            | 1,494,648                                   |
| Sales of other invested assets                            | —  | —   | 663,237                               | —                            | 663,237                                     |
| Other   | —  | —   | 2,487                                 | —                            | 2,487                                       |
| Net cash provided by (used in) investing<br>activities    | —  | —   | (188,555 )                            | —                            | (188,555 )                                  |
| CASH FLOWS PROVIDED BY (USED<br>IN) FINANCING ACTIVITIES: |  |   |                                       |                              |   |
| Dividends paid  | (16,732 )  | —   | —                                     | —                            | (16,732 )                                   |
| Intercompany dividends paid                               | —  | (94,000 )   | (112,000 )                            | 206,000                      | —   |
| Proceeds from the exercise of stock<br>options            | 3,030  | —   | —                                     | —                            | 3,030                                       |
| Share repurchases   | (68,659 )  | —   | —                                     | —                            | (68,659 )                                   |
| Net cash provided by (used in) financing<br>activities    | (82,361 )  | (94,000 )   | (112,000 )                            | 206,000                      | (82,361 )                                   |
| NET INCREASE (DECREASE) IN<br>CASH AND CASH EQUIVALENTS   | 11,767   | (1,728 )  | 23,827                                | —                            | 33,866                                      |
| CASH AND CASH EQUIVALENTS,<br>BEGINNING OF PERIOD         | 10,790   | 2,775   | 518,371                               | —                            | 531,936                                     |
| CASH AND CASH EQUIVALENTS,<br>END OF PERIOD               | \$22,557   | \$1,047   | \$542,198                             | \$—                          | \$565,802                                   |

## Notes to Parent Company Condensed Financial Information

## a) Dividends

Allied World Switzerland received cash dividends from its subsidiaries of \$80,000 and \$94,000 for the three months ended March 31, 2015 and 2014, respectively. Such dividends are included in “cash flows provided by (used in) operating activities” in the unaudited condensed consolidating cash flows.

## 15. SUBSEQUENT EVENTS

On April 1, 2015, the Company completed its acquisitions of the Hong Kong and Singapore operations of Royal & Sun Alliance Insurance plc ("RSA") for approximately \$192,692, subject to post-closing adjustments. In addition to the purchase price, the Company contributed an additional \$90,000 to capitalize the businesses on an ongoing basis. Completion of the valuation of the assets acquired and liabilities assumed is currently in process, in particular related

to insurance-related contract intangibles and other intangibles acquired. The required disclosures related to this acquisition will be provided upon the completion of the valuation of the assets acquired and liabilities assumed in the second quarter of 2015. In addition, the Company has entered into a contract to acquire the Labuan operations of RSA for one British pound sterling. This transaction is expected to close in the second quarter of 2015.

On April 2, 2015, the Company paid a quarterly dividend of \$0.225 per share to shareholders of record on March 24, 2015.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included elsewhere in this Form 10-Q. References in this Form 10-Q to the terms "we," "us," "our," the "Company" or other similar terms mean the consolidated operations of Allied World Assurance Company Holdings, AG, a Swiss holding company, and our consolidated subsidiaries, unless the context requires otherwise. References in this Form 10-Q to the term "Allied World Switzerland" or "Holdings" mean only Allied World Assurance Company Holdings, AG. References to "Allied World Bermuda" mean only Allied World Assurance Company Holdings, Ltd, a Bermuda holding company. References to "our insurance subsidiaries" may include our reinsurance subsidiaries. References in this Form 10-Q to \$ are to the lawful currency of the United States and to CHF are to the lawful currency of Switzerland. References in this Form 10-Q to Holdings' "common shares" mean its registered voting shares.

Note on Forward-Looking Statement

This Form 10-Q and other publicly available documents may include, and our officers and representatives may from time to time make, projections concerning financial information and statements concerning future economic performance and events, plans and objectives relating to management, operations, products and services, and assumptions underlying these projections and statements. These projections and statements are forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995 and are not historical facts but instead represent only our belief regarding future events, many of which, by their nature, are inherently uncertain and outside our control. These projections and statements may address, among other things, our strategy for growth, product development, financial results and reserves. Actual results and financial condition may differ, possibly materially, from these projections and statements and therefore you should not place undue reliance on them. Factors that could cause our actual results to differ, possibly materially, from those in the specific projections and statements are discussed throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations and in "Risk Factors" in Item 1A. of Part I of our 2014 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") on February 17, 2015 (the "2014 Form 10-K"). We are under no obligation (and expressly disclaim any such obligation) to update or revise any forward-looking statement that may be made from time to time, whether as a result of new information, future developments or otherwise.

Overview

Our Business

We are a Swiss-based global provider of a diversified portfolio of property and casualty insurance and reinsurance products with operations in Australia, Bermuda, Canada, Europe, Hong Kong, Singapore, and the United States as well as our Lloyd's Syndicate 2232. We manage our business through three operating segments: North American Insurance, Global Markets Insurance and Reinsurance. As of March 31, 2015, we had approximately \$12.6 billion of total assets, \$3.8 billion of total shareholders' equity and \$4.6 billion of total capital, which includes shareholders' equity, senior notes and other long-term debt.

During the three months ended March 31, 2015, we continued to grow our insurance business (the North American Insurance segment and Global Markets Insurance segment), but also selectively entered into reinsurance treaties. For the insurance operations, we continued to add scale to our existing lines of business and build-out our less mature lines of business. We did however experience negative rate changes in certain lines of business such as general property and healthcare. For our Reinsurance segment, we are experiencing unfavorable market conditions in terms of pricing, terms and conditions, and either did not renew or renewed at lower line sizes on several treaties in response to these market conditions. We expect this trend to continue in the near-term. As a result, our consolidated gross

premiums written decreased by \$20.8 million, or 2.3%, for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. Overall our combined ratio is higher by 8.2 percentage points, driven by higher current year losses incurred and higher stock-based compensation expense.

Our net income decreased by \$52.6 million to \$124.4 million compared to the three months ended March 31, 2014. The decrease was primarily due to the lower underwriting income reported by each of our operating segments and lower total investment return.

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## Recent Developments

On April 1, 2015, we completed our acquisitions of the Hong Kong and Singapore operations of Royal & Sun Alliance Insurance plc ("RSA") for approximately \$192.7 million, subject to post-closing adjustments. In addition to the purchase price, we contributed an additional \$90.0 million to capitalize the businesses on an ongoing basis. Completion of the valuation of the assets acquired and liabilities assumed is currently in process, in particular related to insurance-related contract intangibles and other intangibles acquired. In addition, we have entered into a contract to acquire the Labuan operations of RSA for one British pound sterling. This transaction is expected to close in the second quarter of 2015.

During the fourth quarter of 2014, our Chief Executive Officer reorganized how we manage our business, and as a result we realigned our executive management team and changed our reportable segments to correspond to the reorganization. Our Bermuda insurance operations, except for the trade credit line of business, which had previously been included in the international insurance segment, was combined with the U.S. insurance segment, with the new segment renamed the "North American Insurance" segment. The remaining insurance operations of the international insurance segment was renamed the "Global Markets Insurance" segment. The Reinsurance segment remained unchanged. The new segments have been recast and our historical financial information has been updated to conform to the new presentation.

On May 1, 2014, the shareholders approved a 3-for-1 stock split of the Company's common shares. All historical share and per share amounts reflect the effect of the stock split.

## Financial Highlights

|  | Three Months Ended   |             |   |
|--|--|-------------|---|
|  | March 31,  |             |   |
|  | 2015   | 2014        |   |
|  | (\$ in millions except share, per share and percentage data) |             |   |
| Gross premiums written                                 | \$880.6  | \$901.4     |   |
| Net income   | 124.4  | 177.0       |   |
| Operating income                                       | 91.7   | 129.9       |   |
| Basic earnings per share:                              |  |             |   |
| Net income   | \$1.30   | \$1.78      |   |
| Operating income                                       | \$0.96   | \$1.31      |   |
| Diluted earnings per share:                            |  |             |   |
| Net income   | \$1.27   | \$1.74      |   |
| Operating income                                       | \$0.93   | \$1.28      |   |
| Weighted average common shares outstanding:            |  |             |   |
| Basic  | 95,935,551   | 99,545,187  |   |
| Diluted  | 97,577,029   | 101,584,662 |   |
| Basic book value per common share                      | \$40.12  | \$36.63     |   |
| Diluted book value per common share                    | \$38.99  | \$35.68     |   |
| Annualized return on average equity (ROAE), net income | 13.1   | % 19.8      | % |
| Annualized ROAE, operating income                      | 9.6  | % 14.6      | % |

## Non-GAAP Financial Measures

In presenting the company's results, management has included and discussed certain non-GAAP financial measures, as such term is defined in Item 10(e) of Regulation S-K promulgated by the SEC. Management believes that these non-GAAP measures, which may be defined differently by other companies, better explain the company's results of operations in a manner that allows for a more complete understanding of the underlying trends in the company's business. However, these measures should not be viewed as a substitute for those determined in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

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## Operating income and operating income per share

Operating income is an internal performance measure used in the management of our operations and represents after-tax operational results excluding, as applicable, net realized investment gains or losses, net foreign exchange gain or loss, and other non-recurring items. We exclude net realized investment gains or losses, net foreign exchange gain or loss and any other non-recurring items from our calculation of operating income because these amounts are heavily influenced by and fluctuate in part according to the availability of market opportunities and other factors. In addition to presenting net income determined in accordance with U.S. GAAP, we believe that showing operating income enables investors, analysts, rating agencies and other users of our financial information to more easily analyze our results of operations and our underlying business performance. Operating income should not be viewed as a substitute for U.S. GAAP net income.

The following is a reconciliation of operating income to its most closely related U.S. GAAP measure, net income.

|                               | Three Months Ended  |          |
|-------------------------------|---|----------|
|                               | March 31,   |          |
|                               | 2015  | 2014     |
|                               | (\$ in millions, except share, per share and percentage data) |          |
| Net income                    | \$ 124.4  | \$ 177.0 |
| Add after tax effect of:      |   |          |
| Net realized investment gains | (42.6 )   | (47.2 )  |
| Foreign exchange loss         | 9.9   | 0.1      |
| Operating income              | \$ 91.7   | \$ 129.9 |
| Basic per share data:         |   |          |
| Net income                    | \$ 1.30   | \$ 1.78  |
| Add after tax effect of:      |   |          |
| Net realized investment gains | (0.44 )   | (0.47 )  |
| Foreign exchange loss         | 0.10  | —        |
| Operating income              | \$ 0.96   | \$ 1.31  |
| Diluted per share data:       |   |          |
| Net income                    | \$ 1.27   | \$ 1.74  |
| Add after tax effect of:      |   |          |
| Net realized investment gains | (0.44 )   | (0.46 )  |
| Foreign exchange loss         | 0.10  | —        |
| Operating income              | \$ 0.93   | \$ 1.28  |



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## Diluted book value per share

We have included diluted book value per share because it takes into account the effect of dilutive securities; therefore, we believe it is an important measure of calculating shareholder returns.

|  | As of March 31,                                   |              |
|--|---|--------------|
|  | 2015  | 2014         |
|  | (\$ in millions, except share and per share data) |              |
| Price per share at period end                          | \$40.40   | \$34.40      |
| Total shareholders' equity                             | \$3,829.1   | \$3,616.7    |
| Basic common shares outstanding                        | 95,444,669  | 98,726,463   |
| Add:   |   |              |
| Unvested restricted stock units                        | 843,607   | 523,245      |
| Performance-based equity awards                        | 596,224   | 621,276      |
| Employee share purchase plan                           | 30,504  | 16,716       |
| Dilutive stock options outstanding                     | 2,212,247   | 2,760,303    |
| Weighted average exercise price per share              | \$16.73   | \$16.11      |
| Deduct:  |   |              |
| Options bought back via treasury method                | (916,111  | ) (1,292,814 |
| Common shares and common share equivalents outstanding | 98,211,140  | 101,355,189  |
| Basic book value per common share                      | \$40.12   | \$36.63      |
| Diluted book value per common share                    | \$38.99   | \$35.68      |

## Annualized return on average equity

Annualized return on average shareholders' equity ("ROAE") is calculated using average shareholders' equity. We present ROAE as a measure that is commonly recognized as a standard of performance by investors, analysts, rating agencies and other users of our financial information.

Annualized operating return on average shareholders' equity is calculated using operating income and average shareholders' equity.

|  | Three Months Ended                      |           |   |
|--|---|-----------|---|
|  | March 31,                               |           |   |
|  | 2015                                    | 2014      |   |
|  | (\$ in millions except percentage data) |           |   |
| Opening shareholders' equity   | \$3,778.3                               | \$3,519.8 |   |
| Closing shareholders' equity   | \$3,829.1                               | \$3,616.7 |   |
| Average shareholders' equity   | \$3,803.7                               | \$3,568.3 |   |
| Net income available to shareholders   | \$124.4                                 | \$177.0   |   |
| Annualized return on average shareholders' equity — net income available to shareholders       | 13.1                                    | % 19.8    | % |
| Operating income available to shareholders   | \$91.7                                  | \$129.9   |   |
| Annualized return on average shareholders' equity — operating income available to shareholders | 9.6                                     | % 14.6    | % |



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### Relevant Factors

### Revenues

We derive our revenues primarily from premiums on our insurance policies and reinsurance contracts, net of any reinsurance or retrocessional coverage purchased. Insurance and reinsurance premiums are a function of the amounts and types of policies and contracts we write, as well as prevailing market prices. Our prices are determined before our ultimate costs, which may extend far into the future, are known. In addition, our revenues include income generated from our investment portfolio, consisting of net investment income and net realized investment gains or losses, and other income related to our non-insurance operations. Investment income is principally derived from interest and dividends earned on investments, as well as distributed and undistributed income from equity method investments, partially offset by investment management expenses and fees paid to our custodian bank. Net realized investment gains or losses include gains or losses from the sale of investments, as well as the change in the fair value of investments that we mark-to-market through net income. Other income currently includes revenue from our third party claims administration services operation.

### Expenses

Our expenses consist largely of net losses and loss expenses, acquisition costs and general and administrative expenses. Net losses and loss expenses incurred are comprised of three main components:

• losses paid, which are actual cash payments to insureds and reinsureds, net of recoveries from reinsurers;  
• outstanding loss or case reserves, which represent management's best estimate of the likely settlement amount for known claims, less the portion that can be recovered from reinsurers; and  
• reserves for losses incurred but not reported, or "IBNR", which are reserves (in addition to case reserves) established by us that we believe are needed for the future settlement of claims. The portion recoverable from reinsurers is deducted from the gross estimated loss.

Acquisition costs are comprised of commissions, brokerage fees, insurance taxes and other acquisition-related costs such as profit commissions and are reduced for ceding commission income received on our ceded reinsurance. Commissions and brokerage fees are usually calculated as a percentage of premiums and depend on the market and line of business. Acquisition costs are reported after (1) deducting commissions received on ceded reinsurance, (2) deducting the part of deferred acquisition costs relating to the successful acquisition of new and renewal insurance and reinsurance contracts and (3) including the amortization of previously deferred acquisition costs.

General and administrative expenses include personnel expenses including stock-based compensation expense, rent expense, professional fees, information technology costs and other general operating expenses.

### Ratios

We measure segment profit or loss as underwriting income or loss plus other insurance-related income and expenses, which may include the net earnings from our claims administration services operation and other income or expense that is not directly related to our underwriting operations. We also measure the results for each segment on the basis of the "loss and loss expense ratio," "acquisition cost ratio," "general and administrative expense ratio," "expense ratio" and the "combined ratio." Because we do not manage our assets by segment, investment income, interest expense and total assets are not allocated to individual reportable segments. General and administrative expenses are allocated to segments based on various factors, including staff count and each segment's proportional share of gross premiums written. The loss and loss expense ratio is derived by dividing net losses and loss expenses by net premiums earned. The acquisition cost ratio is derived by dividing acquisition costs by net premiums earned. The general and

administrative expense ratio is derived by dividing general and administrative expenses by net premiums earned. The expense ratio is the sum of the acquisition cost ratio and the general and administrative expense ratio. The combined ratio is the sum of the loss and loss expense ratio, the acquisition cost ratio and the general and administrative expense ratio.

#### Critical Accounting Policies

It is important to understand our accounting policies in order to understand our financial position and results of operations. Our unaudited condensed consolidated financial statements reflect determinations that are inherently subjective in nature and require management to make assumptions and best estimates to determine the reported values. If events or other

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factors cause actual results to differ materially from management's underlying assumptions or estimates, there could be a material adverse effect on our financial condition or results of operations. We believe that some of the more critical judgments in the areas of accounting estimates and assumptions that affect our financial condition and results of operations are related to reserves for losses and loss expenses, reinsurance recoverables, premiums and acquisition costs, valuation of financial instruments and goodwill and other intangible asset impairment valuation. For a detailed discussion of our critical accounting policies, please refer to our 2014 Form 10-K. There were no material changes in the application of our critical accounting estimates subsequent to that report.

## Results of Operations

The following table sets forth our selected consolidated statement of operations data for each of the periods indicated.

|  | Three Months Ended<br>March 31, |         |   |
|--|---------------------------------|---------|---|
|  | 2015                            | 2014    |   |
|  | (\$ in millions)                |         |   |
| Revenues                                 |                                 |         |   |
| Gross premiums written                   | \$880.6                         | \$901.4 |   |
| Net premiums written                     | \$772.5                         | \$771.6 |   |
| Net premiums earned                      | \$568.5                         | \$530.3 |   |
| Net investment income                    | 44.6                            | 47.6    |   |
| Net realized investment gains            | 45.0                            | 54.2    |   |
| Other income                             | 0.9                             | —       |   |
|  | \$659.0                         | \$632.1 |   |
| Expenses                                 |                                 |         |   |
| Net losses and loss expenses             | \$325.2                         | \$275.3 |   |
| Acquisition costs                        | 78.7                            | 67.7    |   |
| General and administrative expenses      | 97.1                            | 80.3    |   |
| Other expense                            | 1.8                             | —       |   |
| Amortization of intangible assets        | 0.6                             | 0.6     |   |
| Interest expense                         | 14.4                            | 14.6    |   |
| Foreign exchange loss                    | 9.9                             | 0.1     |   |
|  | \$527.7                         | \$438.6 |   |
| Income before income taxes               | 131.3                           | 193.5   |   |
| Income tax expense                       | 6.9                             | 16.5    |   |
| Net income                               | \$124.4                         | \$177.0 |   |
| Ratios                                   |                                 |         |   |
| Loss and loss expense ratio              | 57.2                            | % 51.9  | % |
| Acquisition cost ratio                   | 13.8                            | % 12.8  | % |
| General and administrative expense ratio | 17.1                            | % 15.2  | % |
| Expense ratio                            | 30.9                            | % 28.0  | % |
| Combined ratio                           | 88.1                            | % 79.9  | % |

## Comparison of Three Months Ended March 31, 2015 and 2014

## Premiums

Gross premiums written decreased by \$20.8 million, or 2.3%, for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The overall decrease in gross premiums written was primarily the result of the following:

North American Insurance: Gross premiums written increased by \$34.9 million, or 10.1%. The increase in gross premiums written was primarily due to the growth in our general casualty line of business driven primarily by new

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business, including non-recurring business, as well as growth in our less mature lines of business such as inland marine and primary construction. This growth was partially offset by the non-renewal of business, particularly in our healthcare line of business;

Global Markets Insurance: Gross premiums written increased by \$2.2 million, or 3.8%. Assuming constant foreign exchange rates, gross premiums written increased by 11.9%. The increase was primarily due to new business written driven by new lines of business such as onshore construction and marine. This growth was partially offset by the non-renewal of business, particularly in our healthcare line of business; and

Reinsurance: Gross premiums written decreased by \$57.8 million, or 11.6%. The decrease was primarily due to non-renewals of certain treaties, across all lines of business, either due to poor terms and conditions or cedents retaining more of their own business, and lower premiums on renewed treaties mainly due to our assuming a lower percentage of the premiums than in the prior period. These reductions were partially offset by new business written.

The table below illustrates our gross premiums written by underwriter location for each of the periods indicated.

|               | Three Months Ended |         | Dollar<br>Change | Percentage<br>Change |    |
|---------------|--------------------|---------|------------------|----------------------|----|
|               | March 31,<br>2015  | 2014    |                  |                      |    |
|               | (\$ in millions)   |         |                  |                      |    |
| United States | \$536.6            | \$520.8 | \$15.8           | 3.0                  | %  |
| Bermuda       | 196.6              | 229.6   | (33.0)           | (14.4)               | )% |
| Europe        | 104.0              | 103.3   | 0.7              | 0.7                  | %  |
| Asia Pacific  | 40.1               | 46.9    | (6.8)            | (14.5)               | )% |
| Canada        | 3.3                | 0.8     | 2.5              | 312.5                | %  |
|               | \$880.6            | \$901.4 | \$(20.8)         | (2.3)                | )% |

Net premiums written increased by \$0.9 million, or 0.1%, for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The increase in net premiums written was due to higher net premiums written in our North American Insurance and Global Markets Insurance segments partially offset by lower net premiums written in our Reinsurance segment. The difference between gross and net premiums written is the cost to us of purchasing reinsurance coverage, including the cost of property catastrophe reinsurance coverage. We ceded 12.3% of gross premiums written for the three months ended March 31, 2015 compared to 14.4% for the same period in 2014. The decrease was primarily due to retaining more of our premiums on certain lines of business in the current period than in the prior period, partially offset by higher premiums ceded related to our collateralized property catastrophe reinsurance coverage.

Net premiums earned increased by \$38.2 million, or 7.2%, for the three months ended March 31, 2015 compared to the three months ended March 31, 2014 as a result of higher premiums earned in our insurance operations.

We evaluate our business by segment, distinguishing between North American Insurance, Global Markets Insurance and Reinsurance. The following table illustrates the mix of our business on both a gross premiums written and net premiums earned basis.

|                          | Gross Premiums Written                  |         | Net Premiums Earned                     |         |   |
|--------------------------|---|---------|---|---------|---|
|                          | Three Months Ended<br>March 31,<br>2015 | 2014    | Three Months Ended<br>March 31,<br>2015 | 2014    |   |
| North American Insurance | 43.2                                    | % 38.3  | % 55.1                                  | % 50.1  | % |
| Global Markets Insurance | 6.9                                     | % 6.5   | % 8.8                                   | % 6.6   | % |
| Reinsurance              | 49.9                                    | % 55.2  | % 36.1                                  | % 43.3  | % |
| Total                    | 100.0                                   | % 100.0 | % 100.0                                 | % 100.0 | % |

Gross premiums written by our reinsurance segment typically accounts for the largest portion of gross premiums written during the first quarter of a calendar year as many reinsurance contracts have January 1st renewal dates.



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## Net Investment Income

Net investment income decreased by \$3.0 million, or 6.3%, for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The decrease was due to lower income from our equity method investments owned through Allied World Financial Services partially offset by higher income from our hedge fund and private equity investments due to higher distributions from our private equity funds. The earnings from our equity method investments can fluctuate from period to period based on the performance of each equity method investment and the seasonality of their results, and as such the earnings in any given period may not be indicative of the performance in future periods. The annualized period book yield of the investment portfolio for the three months ended March 31, 2015 and 2014 was 2.1% and 2.3%, respectively.

As of March 31, 2015, we held 10.7% of our total investments and cash equivalents in other invested assets compared to 11.5% as of March 31, 2014.

As of March 31, 2015, approximately 88.6% of our fixed income investments consisted of investment grade securities. As of March 31, 2015 and December 31, 2014, the average credit rating of our fixed income portfolio was A+ and AA-, respectively, as rated by Standard & Poor's.

## Realized Investment Gains

Net realized investment gains were comprised of the following:

|  | Three Months Ended<br>March 31, |         |
|--|---------------------------------|---------|
|  | 2015                            | 2014    |
|  | (\$ in millions)                |         |
| Net realized gains on sale:                                    |                                 |         |
| Fixed maturity investments, trading                            | \$5.4                           | \$7.5   |
| Equity securities, trading                                     | 14.5                            | 36.2    |
| Other invested assets: hedge funds and private equity, trading | 12.3                            | 6.4     |
| Total net realized gains on sale                               | 32.2                            | 50.1    |
| Net realized and unrealized losses on derivatives              | (11.6                           | ) (12.9 |
| Mark-to-market gains (losses):                                 |                                 |         |
| Fixed maturity investments, trading                            | 25.6                            | 22.4    |
| Equity securities, trading                                     | 5.4                             | (21.6   |
| Other invested assets: hedge funds and private equity, trading | (6.6                            | ) 16.2  |
| Total mark-to-market gains                                     | 24.4                            | 17.0    |
| Net realized investment gains                                  | \$45.0                          | \$54.2  |

The total return of our investment portfolio was 1.0% and 1.2% for the three months ended March 31, 2015 and 2014, respectively. The slight decrease in total return was primarily due to lower net investment income and lower realized gains on equity securities. We sold a lower volume of equity securities during the current period than in the prior period. These decreases were partially offset by higher stock price appreciation on equity securities we held during the three months ended March 31, 2015 compared to three months ended March 31, 2014.

## Other Income

Other income represents the revenue of our third-party claims administration services operation that we acquired in the second quarter of 2014.

Net Losses and Loss Expenses

Net losses and loss expenses increased by \$49.9 million, or 18.1%, for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The following is a breakdown of the loss and loss expense ratio for the three months ended March 31, 2015 and 2014:

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|                                 | Three Months Ended<br>March 31, 2015 |              | Three Months Ended<br>March 31, 2014 |              | Dollar<br>Change | Change in<br>Percentage<br>Points |
|---------------------------------|--------------------------------------|--------------|--------------------------------------|--------------|------------------|-----------------------------------|
|                                 | Amount                               | % of NPE (1) | Amount<br>(\$ in<br>millions)        | % of NPE (1) |                  |                                   |
| Non-catastrophe                 | \$388.8                              | 68.4         | % \$324.2                            | 61.1         | % \$64.6         | 7.3                               |
| Property catastrophe            | —                                    | —            | —                                    | —            | —                | —                                 |
| Current period                  | 388.8                                | 68.4         | 324.2                                | 61.1         | 64.6             | 7.3                               |
| Prior period                    | (63.6 )                              | (11.2 )      | (48.9 )                              | (9.2 )       | (14.7 )          | (2.0 )                            |
| Net losses and loss<br>expenses | \$325.2                              | 57.2         | % \$275.3                            | 51.9         | % \$49.9         | 5.3                               |

(1) "NPE" means net premiums earned.

## Current year non-catastrophe losses and loss expenses

The increase in the non-catastrophe losses and loss expenses and related ratio was primarily due to higher reported property loss activity in each of our operating segments, aviation losses in our Global Markets Insurance segment and higher loss ratio assumptions in our Reinsurance segment. The higher reported property and aviation loss activity increased the non-catastrophe loss and loss expense ratio by 3.5 percentage points.

## Current year property catastrophe losses and loss expenses

During the three months ended March 31, 2015 and March 31, 2014, we did not have any net losses incurred that we classified as property catastrophe losses.

## Prior year losses and loss expenses

We recorded net favorable reserve development related to prior years of \$63.6 million during the three months ended March 31, 2015 compared to net favorable reserve development of \$48.9 million for the three months ended March 31, 2014, as shown in the tables below.

|                          | (Favorable) and Unfavorable Loss Reserve Development by Loss Year<br>For the Three Months Ended March 31, 2015 |           |          |        |          |          |           |
|--------------------------|--|-----------|----------|--------|----------|----------|-----------|
|                          | 2009 and<br>Prior  | 2010      | 2011     | 2012   | 2013     | 2014     | Total     |
|                          | (\$ in millions)   |           |          |        |          |          |           |
| North American Insurance | \$(19.7 )  | \$(11.9 ) | \$(5.5 ) | \$8.6  | \$(0.2 ) | \$3.5    | \$(25.2 ) |
| Global Markets Insurance | (6.4 )   | (3.8 )    | (0.5 )   | 5.1    | (5.4 )   | (4.2 )   | (15.2 )   |
| Reinsurance              | (12.1 )  | (7.7 )    | (0.5 )   | 1.0    | 2.3      | (6.2 )   | (23.2 )   |
|                          | \$(38.2 )  | \$(23.4 ) | \$(6.5 ) | \$14.7 | \$(3.3 ) | \$(6.9 ) | \$(63.6 ) |

We recorded net favorable prior year reserve development in each of our operating segments due to actual loss emergence being lower than initially expected. The net favorable prior year reserve development in the North American Insurance segment was primarily related to the professional liability and general casualty lines of business, partially offset by net unfavorable prior year reserve development in the healthcare line of business. The Global Markets Insurance segment had favorable prior year reserve development across most major lines of business. The net favorable prior year reserve development in the Reinsurance segment was primarily related to our property reinsurance and casualty reinsurance lines of business.



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The following table shows the net favorable reserve development by loss year for each of our segments for the three months ended March 31, 2014.

|                          | (Favorable) and Unfavorable Loss Reserve Development by Loss Year<br>For the Three Months Ended March 31, 2014 |          |          |          |          |          |           |
|--------------------------|--|----------|----------|----------|----------|----------|-----------|
|                          | 2008 and<br>Prior  | 2009     | 2010     | 2011     | 2012     | 2013     | Total     |
|                          | (\$ in millions)   |          |          |          |          |          |           |
| North American Insurance | \$(19.9 )  | \$(3.4 ) | \$(3.3 ) | \$2.6    | \$(0.7 ) | \$13.2   | \$(11.5 ) |
| Global Markets Insurance | (8.1 )   | (2.7 )   | (1.2 )   | (3.1 )   | (0.6 )   | (1.4 )   | (17.1 )   |
| Reinsurance              | (5.8 )   | 0.2      | 1.5      | 0.2      | (2.1 )   | (14.3 )  | (20.3 )   |
|                          | \$(33.8 )  | \$(5.9 ) | \$(3.0 ) | \$(0.3 ) | \$(3.4 ) | \$(2.5 ) | \$(48.9 ) |

We recorded net favorable prior year reserve development in each of our operating segments due to actual loss emergence being lower than initially expected. The net favorable prior year reserve development in the North American Insurance segment primarily related to the professional liability, general casualty, programs and general property lines of business, partially offset by net unfavorable prior year reserve development in the healthcare line of business. The Global Markets Insurance segment had favorable prior year reserve development across all major lines of business. The net favorable prior year reserve development in the Reinsurance segment was primarily due to benign property loss activity.

The following table shows the components of net losses and loss expenses for each of the periods indicated.

|                                      | Three Months Ended<br>March 31, |         | Dollar  |
|--------------------------------------|---------------------------------|---------|---------|
|                                      | 2015                            | 2014    | Change  |
|                                      | (\$ in millions)                |         |         |
| Net losses paid                      | \$299.7                         | \$232.3 | \$67.4  |
| Net change in reported case reserves | (68.8 )                         | (51.1 ) | (17.7 ) |
| Net change in IBNR                   | 94.3                            | 94.1    | 0.2     |
| Net losses and loss expenses         | \$325.2                         | \$275.3 | \$49.9  |

The table below is a reconciliation of the beginning and ending reserves for losses and loss expenses. Losses incurred and paid are reflected net of reinsurance recoverables.

|  | Three Months Ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2015                            | 2014      |
|  | (\$ in millions)                |           |
| Net reserves for losses and loss expenses, January 1 | \$4,540.9                       | \$4,532.0 |
| Incurred related to:                                 |                                 |           |
| Current period non-catastrophe                       | 388.8                           | 324.2     |
| Prior period   | (63.6 )                         | (48.9 )   |
| Total incurred                                       | 325.2                           | 275.3     |
| Paid related to:                                     |                                 |           |
| Current period non-catastrophe                       | 6.6                             | 3.7       |
| Prior period   | 293.1                           | 228.6     |
| Total paid   | 299.7                           | 232.3     |
| Foreign exchange revaluation                         | (11.6 )                         | 1.3       |
| Net reserve for losses and loss expenses, March 31   | 4,554.8                         | 4,576.3   |
| Losses and loss expenses recoverable                 | 1,350.3                         | 1,280.5   |

|  |           |           |
|--|-----------|-----------|
| Reserve for losses and loss expenses, March 31 | \$5,905.1 | \$5,856.8 |
|--|-----------|-----------|

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### Acquisition Costs

Acquisition costs increased by \$11.0 million, or 16.2%, for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The increase in acquisition costs was primarily due to higher acquisition costs in our North American Insurance and Global Markets Insurance segments. Acquisition costs as a percentage of net premiums earned were 13.8% for the three months ended March 31, 2015 compared to 12.8% for the same period in 2014.

### General and Administrative Expenses

General and administrative expenses increased by \$16.8 million, or 20.9%, for the three months ended March 31, 2015 compared to the same period in 2014. Our general and administrative expense ratio was 17.1% and 15.2% for the three months ended March 31, 2015 and 2014, respectively. The increase in general and administrative expenses was primarily due to higher stock-based compensation and higher salary related costs as headcount increased to support our continued growth, particularly in our insurance operations, as well as higher infrastructure-related costs to support the increased headcount. The increase in stock-based compensation was due to the change in our cash equivalent awards. We have granted cash equivalent restricted stock units and performance-based equity awards to certain key employees, and we measure the value of each award at the period ending share price. Changes in our share price are recognized as increases or decreases in our compensation expense ratably over the service period. Our share price increased 7% for the three months ended March 31, 2015, compared to a 9% decrease for the same period in 2014.

### Other Expense

Other expense represents the expenses of our third-party claims administration services operation that we acquired in the second quarter of 2014 and the transaction-related costs incurred for the acquisitions of the Hong Kong and Singapore operations of RSA.

### Amortization of Intangible Assets

The amortization of intangible assets was unchanged for the three months ended March 31, 2015 compared to the three months ended March 31, 2014.

### Interest Expense

Interest expense decreased by \$0.2 million, or 1.4%, for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The decrease in interest expense was due to lower letter of credit fees partially offset by interest expense on the mortgage and credit facility used to purchase our Swiss office building.

### Foreign Exchange Loss

Foreign exchange loss increased by \$9.8 million for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The increase was due to a loss recorded to the close out of the foreign currency forward contract we entered into to economically hedge a portion of our foreign currency exposure related to the consideration paid for the Hong Kong and Singapore operations of RSA and the strengthening of the U.S. dollar relative to other major currencies during the current period.

### Income Tax Expense

Corporate income tax expense or benefit is generated through our operations in Australia, Canada, Europe, Hong Kong, Singapore and the United States. Our income tax expense or benefit may fluctuate significantly from period to period depending on the geographic distribution of pre-tax net income or loss in any given period between different jurisdictions with different tax rates. The geographic distribution of pre-tax net income or loss can vary significantly between periods principally due to the geographic location of the business written, the mix of business and the profitability of such business, the geographic location of investment income, the geographic location of net losses and loss expenses incurred, and the amount of inter-company reinsurance utilized for rating agency purposes.

Income tax expense for the three months ended March 31, 2015 decreased by \$9.6 million compared to the three months ended March 31, 2014. The decrease in income tax expense was primarily due to lower taxable income in our U.S. operations.



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## Net Income

Net income for the three months ended March 31, 2015 was \$124.4 million compared to net income of \$177.0 million for the three months ended March 31, 2014. The \$52.6 million decrease was primarily the result of lower underwriting income from each of our operating segments and lower total investment return.

## Underwriting Results by Operating Segments

Our company is organized into three operating segments:

**North American Insurance Segment.** The North American Insurance segment includes our direct specialty insurance operations in the United States, Bermuda and Canada, as well as the company's claim administration services operation. This segment provides both direct property and casualty insurance primarily to North American domiciled accounts.

**Global Markets Insurance Segment.** The Global Markets Insurance segment includes our insurance operations in Europe and Asia Pacific, which includes offices in Australia, Hong Kong and Singapore and a Lloyd's coverholder operation in Miami, which services business from Latin America and the Caribbean. This segment provides both direct property and casualty insurance primarily to non-North American domiciled accounts.

**Reinsurance Segment.** Our reinsurance segment has operations in Bermuda, Europe, Singapore and the United States. This segment includes the reinsurance of property, general casualty, professional liability, specialty lines and property catastrophe coverages written by insurance companies. We presently write reinsurance on both a treaty and a facultative basis, targeting several niche reinsurance markets.

## North American Insurance Segment

The following table summarizes the underwriting results and associated ratios for the North American Insurance segment for each of the periods indicated.

|  | Three Months Ended<br>March 31, |         |   |
|--|---------------------------------|---------|---|
|  | 2015                            | 2014    |   |
|  | (\$ in millions)                |         |   |
| Revenues                                 |                                 |         |   |
| Gross premiums written                   | \$380.8                         | \$345.9 |   |
| Net premiums written                     | 296.9                           | 247.2   |   |
| Net premiums earned                      | 313.0                           | 265.5   |   |
| Expenses                                 |                                 |         |   |
| Net losses and loss expenses             | \$195.5                         | \$161.2 |   |
| Acquisition costs                        | 31.0                            | 23.7    |   |
| General and administrative expenses      | 59.3                            | 47.6    |   |
| Underwriting income                      | 27.2                            | 33.0    |   |
| Other insurance-related income           | 0.9                             | —       |   |
| Other insurance-related expenses         | 0.9                             | —       |   |
| Segment income                           | \$27.2                          | \$33.0  |   |
| Ratios                                   |                                 |         |   |
| Loss and loss expense ratio              | 62.5                            | % 60.7  | % |
| Acquisition cost ratio                   | 9.9                             | % 8.9   | % |
| General and administrative expense ratio | 18.9                            | % 17.9  | % |

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|                |      |   |      |   |
|----------------|------|---|------|---|
| Expense ratio  | 28.8 | % | 26.8 | % |
| Combined ratio | 91.3 | % | 87.5 | % |

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## Comparison of Three Months Ended March 31, 2015 and 2014

Premiums. Gross premiums written increased by \$34.9 million, or 10.1%, for the three months ended March 31, 2015 compared to the same period in 2014. The increase in gross premiums written was primarily due to the growth in our general casualty line of business driven primarily by new business, including non-recurring business, as well as growth in our less mature lines of business such as inland marine and primary construction. This growth was partially offset by the non-renewal of business, particularly in our healthcare line of business.

The table below illustrates our gross premiums written by underwriter location for our North American Insurance operations.

|         | Three Months Ended |                          | Dollar<br>Change | Percentage<br>Change |   |
|---------|--------------------|--------------------------|------------------|----------------------|---|
|         | March 31,<br>2015  | 2014<br>(\$ in millions) |                  |                      |   |
| U.S.    | \$300.5            | \$269.1                  | \$31.4           | 11.7                 | % |
| Bermuda | 77.0               | 76.0                     | 1.0              | 1.3                  | % |
| Canada  | 3.3                | 0.8                      | 2.5              | 312.5                | % |
|         | \$380.8            | \$345.9                  | \$34.9           | 10.1                 | % |

The table below illustrates our gross premiums written by line of business for each of the periods indicated.

|                                     | Three Months Ended |                             | Dollar<br>Change | Percentage<br>Change |    |
|-------------------------------------|--------------------|-----------------------------|------------------|----------------------|----|
|                                     | March 31,<br>2015  | 2014<br>(\$ in<br>millions) |                  |                      |    |
| General casualty                    | \$123.5            | \$93.1                      | \$30.4           | 32.7                 | %  |
| Professional liability              | 85.3               | 86.3                        | (1.0)            | (1.2)                | )% |
| Healthcare                          | 45.6               | 53.1                        | (7.5)            | (14.1)               | )% |
| General property (including energy) | 43.3               | 44.4                        | (1.1)            | (2.5)                | )% |
| Programs                            | 40.5               | 39.0                        | 1.5              | 3.8                  | %  |
| Inland marine                       | 18.2               | 12.1                        | 6.1              | 50.4                 | %  |
| Environmental                       | 11.4               | 10.3                        | 1.1              | 10.7                 | %  |
| Other*                              | 13.0               | 7.6                         | 5.4              | 71.1                 | %  |
|                                     | \$380.8            | \$345.9                     | \$34.9           | 10.1                 | %  |

\*Includes our primary construction, surety and trade credit lines of business.

Net premiums written increased by \$49.7 million, or 20.1%, for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The increase in net premiums written was due to the increase in gross premiums written and a reduction in premiums ceded. We ceded 22.0% of gross premiums written for the three months ended March 31, 2015 compared to 28.5% for the three months ended March 31, 2014. The decrease was primarily due to retaining more of our gross premiums written in several lines of business in the current period compared to the prior period.

Net premiums earned increased by \$47.5 million, or 17.9%, for the three months ended March 31, 2015 compared to the same period in 2014. The increase was due to the continued growth of our U.S. insurance operations during 2014 and into 2015.

Net losses and loss expenses. Net losses and loss expenses increased by \$34.3 million, or 21.3%, for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The following is a breakdown of the loss

and loss expense ratio for the three months ended March 31, 2015 and 2014:

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|                              | Three Months Ended<br>March 31, 2015 |          | Three Months Ended<br>March 31, 2014 |          | Dollar<br>Change | Change in<br>Percentage<br>Points |
|------------------------------|--------------------------------------|----------|--------------------------------------|----------|------------------|-----------------------------------|
|                              | Amount                               | % of NPE | Amount<br>(\$ in<br>millions)        | % of NPE |                  |                                   |
| Non-catastrophe              | \$220.7                              | 70.6     | % \$172.7                            | 65.0     | % \$48.0         | 5.6 Pts                           |
| Property catastrophe         | —                                    | —        | —                                    | —        | —                | —                                 |
| Current period               | 220.7                                | 70.6     | 172.7                                | 65.0     | 48.0             | 5.6                               |
| Prior period                 | (25.2 )                              | (8.1 )   | (11.5 )                              | (4.3 )   | (13.7 )          | (3.8 )                            |
| Net losses and loss expenses | \$195.5                              | 62.5     | % \$161.2                            | 60.7     | % \$34.3         | 1.8 Pts                           |

## Current year non-catastrophe losses and loss expenses

The increase in the non-catastrophe losses and loss expenses and related ratio was primarily due to higher reported large property losses of \$10.6 million during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. This increased the loss and loss expense ratio by 3.4 percentage points.

## Current year property catastrophe losses and loss expenses

During the three months ended March 31, 2015 and March 31, 2014, we did not have any net losses incurred that we classified as property catastrophe losses.

## Prior year losses and loss expenses

Overall, our North American Insurance segment recorded net favorable reserve development of \$25.2 million during the three months ended March 31, 2015 compared to net favorable reserve development of \$11.5 million for the three months ended March 31, 2014, as shown in the tables below.

|                        | (Favorable) and Unfavorable Loss Reserve Development by Loss Year |           |          |        |          |        |           |
|------------------------|---|-----------|----------|--------|----------|--------|-----------|
|                        | For the Three Months Ended March 31, 2015                         |           |          |        |          |        |           |
|                        | 2009 and<br>Prior   | 2010      | 2011     | 2012   | 2013     | 2014   | Total     |
|                        | (\$ in millions)  |           |          |        |          |        |           |
| General casualty       | \$(8.5 )  | \$0.4     | \$(4.9 ) | \$2.2  | \$2.3    | \$0.3  | \$(8.2 )  |
| Programs               | (2.1 )  | (1.8 )    | (0.3 )   | (0.1 ) | —        | (0.3 ) | (4.6 )    |
| General property       | (0.1 )  | —         | 0.2      | (1.6 ) | (1.8 )   | 1.2    | (2.1 )    |
| Healthcare             | (3.8 )  | (2.5 )    | 2.2      | 9.1    | —        | —      | 5.0       |
| Professional liability | (5.2 )  | (7.9 )    | (2.7 )   | (1.5 ) | —        | —      | (17.3 )   |
| Inland Marine          | —   | —         | —        | —      | (0.7 )   | 0.9    | 0.2       |
| Environmental          | —   | (0.1 )    | —        | 0.5    | —        | —      | 0.4       |
| Other                  | —   | —         | —        | —      | —        | 1.4    | 1.4       |
|                        | \$(19.7 )   | \$(11.9 ) | \$(5.5 ) | \$8.6  | \$(0.2 ) | \$3.5  | \$(25.2 ) |

The net unfavorable prior year reserve development in the healthcare lines of business for the 2011 and 2012 loss years was due to adverse development on several claims above our previous expectations.



Table of Contents(Favorable) and Unfavorable Loss Reserve Development by  
Loss Year

For the Three Months Ended March 31, 2014

|                             | 2008 and<br>Prior | 2009     | 2010     | 2011   | 2012     | 2013   | Total    |
|-----------------------------|-------------------|----------|----------|--------|----------|--------|----------|
|                             | (\$ in millions)  |          |          |        |          |        |          |
| General casualty Programs   | \$(4.3 )          | \$(0.2 ) | \$(3.9 ) | \$2.1  | \$—      | \$—    | \$(6.3 ) |
| General property Healthcare | 2.6               | (3.0 )   | —        | (1.0 ) | (0.2 )   | —      | (1.6 )   |
| Professional liability      | (0.2 )            | (0.5 )   | 0.6      | (2.0 ) | (0.8 )   | (2.8 ) | (5.7 )   |
| Other                       | (4.0 )            | 2.0      | —        | 4.3    | 1.8      | 16.0   | 20.1     |
|                             | (14.0 )           | (1.7 )   | —        | (0.5 ) | (1.2 )   | —      | (17.4 )  |
|                             | —                 | —        | —        | (0.3 ) | (0.3 )   | —      | (0.6 )   |
|                             | \$(19.9 )         | \$(3.4 ) | \$(3.3 ) | \$2.6  | \$(0.7 ) | \$13.2 | \$(11.5) |

The unfavorable prior year reserve development in the healthcare line of business for the 2013 loss year primarily related to a single claim. The favorable prior year reserve development in the professional liability line of business for the 2008 and prior loss years was a result of actual loss emergence being lower than anticipated on an individual claim in the 2007 loss year.

Acquisition costs. Acquisition costs increased by \$7.3 million, or 30.8%, for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The increase was driven by the growth of the operations and lower premiums ceded, which resulted in lower ceding commission income. The acquisition cost ratio was 9.9% and 8.9% for the three months ended March 31, 2015 and 2014, respectively. The increase in the acquisition cost ratio was due to the reduction in ceding commission income.

General and administrative expenses. General and administrative expenses increased by \$11.7 million, or 24.6%, for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The increase was due to the continued growth of our U.S. insurance operations, which drove an increase in salary and related costs, as well as increased costs related to expanding and improving our office space to support this growth. The increase in general and administrative expenses was also due to higher stock-based compensation expense due to the change in our stock price. The general and administrative expense ratio increased to 18.9% for the three months ended March 31, 2015 from 17.9% for the same period in 2014, reflecting the increase in expenses out-pacing the increase in net premiums earned.

Other insurance-related income and expense. The other insurance-related income and expense represents the revenue and related expenses of our third-party claims administration services operation that we acquired in May 2014.

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## Global Markets Insurance Segment

The following table summarizes the underwriting results and associated ratios for the Global Markets Insurance segment for each of the periods indicated.

|  | Three Months Ended<br>March 31, |        |                  |   |
|--|---------------------------------|--------|------------------|---|
|  | 2015                            | 2014   | (\$ in millions) |   |
| Revenues                                 |                                 |        |                  |   |
| Gross premiums written                   | \$60.6                          | \$58.4 |                  |   |
| Net premiums written                     | 42.9                            | 31.0   |                  |   |
| Net premiums earned                      | 50.0                            | 35.0   |                  |   |
| Expenses                                 |                                 |        |                  |   |
| Net losses and loss expenses             | \$20.5                          | \$4.4  |                  |   |
| Acquisition costs                        | 7.0                             | 2.9    |                  |   |
| General and administrative expenses      | 18.0                            | 14.6   |                  |   |
| Underwriting income                      | 4.5                             | 13.1   |                  |   |
| Other insurance-related income           | —                               | —      |                  |   |
| Other insurance-related expenses         | 1.0                             | —      |                  |   |
| Segment income                           | \$3.5                           | \$13.1 |                  |   |
| Ratios                                   |                                 |        |                  |   |
| Loss and loss expense ratio              | 41.0                            | % 12.5 |                  | % |
| Acquisition cost ratio                   | 14.0                            | % 8.2  |                  | % |
| General and administrative expense ratio | 36.0                            | % 41.6 |                  | % |
| Expense ratio                            | 50.0                            | % 49.8 |                  | % |
| Combined ratio                           | 91.0                            | % 62.3 |                  | % |

## Comparison of Three Months Ended March 31, 2015 and 2014

Premiums. Gross premiums written increased by \$2.2 million, or 3.8%, for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. Assuming constant foreign exchange rates, gross premiums written increased by 11.9%. The increase was primarily due to new business written driven by new lines of business such as onshore construction and marine. This growth was partially offset by the non-renewal of business, particularly in our healthcare line of business.

The table below illustrates our gross premiums written by underwriter location for our Global Markets Insurance operations.

|              | Three Months Ended<br>March 31, |        | Dollar<br>Change | Percentage<br>Change |    |
|--------------|---------------------------------|--------|------------------|----------------------|----|
|              | 2015                            | 2014   |                  |                      |    |
|              | (\$ in millions)                |        |                  |                      |    |
| Europe       | \$52.5                          | \$49.0 | \$3.5            | 7.1                  | %  |
| Asia Pacific | 7.1                             | 5.5    | 1.6              | 29.1                 | %  |
| Bermuda      | 1.0                             | 3.9    | (2.9)            | (74.4)               | )% |
|              | \$60.6                          | \$58.4 | \$2.2            | 3.8                  | %  |

The Bermuda gross premiums written was related to the trade credit line of business which did not transfer to the North American Insurance segment. There should be no further new trade credit business written out of our Bermuda



office going forward.

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The table below illustrates our gross premiums written by line of business for each of the periods indicated.

|                        | Three Months Ended |        | Dollar<br>Change | Percentage<br>Change |    |
|------------------------|--------------------|--------|------------------|----------------------|----|
|                        | March 31,<br>2015  | 2014   |                  |                      |    |
|                        | (\$ in millions)   |        |                  |                      |    |
| Professional liability | \$22.8             | \$19.6 | \$3.2            | 16.3                 | %  |
| General property       | 9.6                | 11.2   | (1.6)            | (14.3)               | )% |
| General casualty       | 8.7                | 6.2    | 2.5              | 40.3                 | %  |
| Trade credit           | 6.8                | 8.5    | (1.7)            | (20.0)               | )% |
| Healthcare             | 3.7                | 8.5    | (4.8)            | (56.5)               | )% |
| Aviation               | 3.4                | 2.9    | 0.5              | 17.2                 | %  |
| Other*                 | 5.6                | 1.5    | 4.1              | 273.3                | %  |
|                        | \$60.6             | \$58.4 | \$2.2            | 3.8                  | %  |

\*Includes our marine and onshore construction lines of business.

Net premiums written increased by \$11.9 million, or 38.4%, for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The increase in net premiums written was primarily due to lower ceded premiums. We ceded 29.2% of gross premiums written for the three months ended March 31, 2015 compared to 46.9% for the three months ended March 31, 2014. The decrease was primarily due to lower cessions on our professional liability, healthcare and aviation reinsurance treaties and lower minimum ceded premium accruals.

Net premiums earned increased by \$15.0 million, or 42.9%, primarily due to higher net premiums written during 2014 and the beginning of 2015.

Net losses and loss expenses. Net losses and loss expenses increased by \$16.1 million for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The following is a breakdown of the loss and loss expense ratio for the three months ended March 31, 2015 and 2014:

|                              | Three Months Ended |                | Three Months Ended |                | Dollar<br>Change | Change in<br>Percentage<br>Points |
|------------------------------|--------------------|----------------|--------------------|----------------|------------------|-----------------------------------|
|                              | March 31, 2015     | March 31, 2014 | March 31, 2015     | March 31, 2014 |                  |                                   |
|                              | Amount             | % of NPE       | Amount             | % of NPE       |                  |                                   |
|                              |                    |                | (\$ in millions)   |                |                  |                                   |
| Non-catastrophe              | \$35.7             | 71.4           | % \$21.5           | 61.5           | % \$14.2         | 9.9 Pts                           |
| Property catastrophe         | —                  | —              | —                  | —              | —                | —                                 |
| Current period               | 35.7               | 71.4           | 21.5               | 61.5           | 14.2             | 9.9                               |
| Prior period                 | (15.2)             | (30.4)         | (17.1)             | (48.7)         | 1.9              | 18.3                              |
| Net losses and loss expenses | \$20.5             | 41.0           | % \$4.4            | 12.8           | % \$16.1         | 28.2 Pts                          |

#### Current year non-catastrophe losses and loss expenses

The increase in the non-catastrophe losses and loss expenses and related ratio was primarily due to higher reported aviation and large property losses of \$4.5 million during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. This increased the loss and loss expense ratio by 9.1 percentage points.

#### Current year property catastrophe losses and loss expenses

During the three months ended March 31, 2015 and March 31, 2014, we did not have any net losses incurred that we classified as property catastrophe losses.

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## Prior year losses and loss expenses

Overall, our Global Markets Insurance segment recorded net favorable reserve development of \$15.2 million during the three months ended March 31, 2015 compared to net favorable reserve development of \$17.1 million for the three months ended March 31, 2014, as shown in the tables below.

|                        | (Favorable) and Unfavorable Loss Reserve Development by Loss Year |          |          |        |          |          |           |
|------------------------|---|----------|----------|--------|----------|----------|-----------|
|                        | For the Three Months Ended March 31, 2015                         |          |          |        |          |          |           |
|                        | 2009 and<br>Prior   | 2010     | 2011     | 2012   | 2013     | 2014     | Total     |
|                        | (\$ in millions)  |          |          |        |          |          |           |
| General casualty       | \$(2.4 )  | \$(0.2 ) | \$(0.3 ) | \$—    | \$(0.5 ) | \$—      | \$(3.4 )  |
| General property       | 0.1   | (0.2 )   | —        | (0.1 ) | (3.7 )   | (3.3 )   | (7.2 )    |
| Professional liability | (4.1 )  | (3.4 )   | (0.1 )   | 5.3    | (0.4 )   | —        | (2.7 )    |
| Healthcare             | —   | —        | (0.1 )   | (0.1 ) | 0.4      | —        | 0.2       |
| Trade Credit           | —   | —        | —        | —      | (2.8 )   | 2.8      | —         |
| Aviation               | —   | —        | —        | —      | 1.6      | (3.7 )   | (2.1 )    |
|                        | \$(6.4 )  | \$(3.8 ) | \$(0.5 ) | \$5.1  | \$(5.4 ) | \$(4.2 ) | \$(15.2 ) |

The unfavorable reserve development for the 2012 loss year in the professional liability line of business was related to a single claim that was reported in the current period.

|                        | (Favorable) and Unfavorable Loss Reserve Development by Loss Year |          |          |          |          |          |           |
|------------------------|---|----------|----------|----------|----------|----------|-----------|
|                        | For the Three Months Ended March 31, 2014                         |          |          |          |          |          |           |
|                        | 2008 and<br>Prior   | 2009     | 2010     | 2011     | 2012     | 2013     | Total     |
|                        | (\$ in millions)  |          |          |          |          |          |           |
| General casualty       | \$(5.3 )  | \$(2.2 ) | \$(0.9 ) | \$(0.1 ) | \$—      | \$—      | \$(8.5 )  |
| General property       | (1.2 )  | —        | (0.1 )   | (1.3 )   | (1.5 )   | (1.4 )   | (5.5 )    |
| Professional liability | (1.6 )  | (0.5 )   | (0.1 )   | (0.4 )   | (0.1 )   | —        | (2.7 )    |
| Healthcare             | —   | —        | —        | (0.3 )   | —        | —        | (0.3 )    |
| Trade credit           | —   | —        | (0.1 )   | (1.0 )   | 1.0      | —        | (0.1 )    |
|                        | \$(8.1 )  | \$(2.7 ) | \$(1.2 ) | \$(3.1 ) | \$(0.6 ) | \$(1.4 ) | \$(17.1 ) |

Acquisition costs. Acquisition costs increased by \$4.1 million for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The increase in acquisition costs was primarily due to the growth in certain professional liability lines of business, which carries a higher acquisition cost relative to other lines of business and lower premiums ceded, which resulted in lower ceding commission income. The acquisition cost ratio was 14.0% for the three months ended March 31, 2015 compared to 8.2% for the three months ended March 31, 2014. The increase in the acquisition cost ratio was due to lower ceding commission income in the current period compared to the prior period.

General and administrative expenses. General and administrative expenses increased by 3.4 million, or 23.3%, for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The increase in general and administrative expenses was due to the continued expansion of our Global Markets Insurance operations which caused higher salary and infrastructure-related costs partially offset by the strengthening of the U.S. dollar. The general and administrative expense ratio was 36.0% and 41.6% for the three months ended March 31, 2015 and 2014, respectively. The decrease in the general and administrative expense ratio was due to higher growth in net premiums

earned relative to expenses.

Other insurance-related income and expense. The other insurance-related expenses incurred represent the transaction-related costs incurred for our acquisitions of RSA's Hong Kong and Singapore branches.

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## Reinsurance Segment

The following table summarizes the underwriting results and associated ratios for the reinsurance segment for each of the periods indicated.

|  | Three Months Ended<br>March 31, |         |  |   |
|--|---------------------------------|---------|--|---|
|  | 2015                            | 2014    |  |   |
|  | (\$ in millions)                |         |  |   |
| Revenues                                 |                                 |         |  |   |
| Gross premiums written                   | \$439.3                         | \$497.1 |  |   |
| Net premiums written                     | 432.8                           | 493.4   |  |   |
| Net premiums earned                      | 205.5                           | 229.8   |  |   |
| Expenses                                 |                                 |         |  |   |
| Net losses and loss expenses             | \$109.2                         | \$109.7 |  |   |
| Acquisition costs                        | 40.7                            | 41.2    |  |   |
| General and administrative expenses      | 19.8                            | 18.1    |  |   |
| Underwriting income                      | \$35.8                          | \$60.8  |  |   |
| Ratios                                   |                                 |         |  |   |
| Loss and loss expense ratio              | 53.1                            | % 47.7  |  | % |
| Acquisition cost ratio                   | 19.8                            | % 17.9  |  | % |
| General and administrative expense ratio | 9.6                             | % 7.9   |  | % |
| Expense ratio                            | 29.4                            | % 25.8  |  | % |
| Combined ratio                           | 82.5                            | % 73.5  |  | % |

## Comparison of Three Months Ended March 31, 2015 and 2014

Premiums. Gross premiums written decreased by \$57.8 million, or 11.6%, for the three months ended March 31, 2015 compared to the same period in 2014. The decrease was primarily due to non-renewals of certain treaties, across all lines of business, either due to poor terms and conditions or cedents retaining more of their own business, and lower premiums on renewed treaties mainly due to our assuming a lower percentage of the premiums than in the prior period. These reductions were partially offset by new business written.

The table below illustrates our gross premiums written by underwriter location for our reinsurance operations.

|               | Three Months Ended<br>March 31, |         | Dollar<br>Change | Percentage<br>Change |    |
|---------------|---------------------------------|---------|------------------|----------------------|----|
|               | 2015                            | 2014    |                  |                      |    |
|               | (\$ in millions)                |         |                  |                      |    |
| United States | \$235.3                         | \$251.7 | \$(16.4)         | (6.5)                | )% |
| Bermuda       | 118.7                           | 149.7   | (31.0)           | (20.7)               | )% |
| Europe        | 52.4                            | 54.4    | (2.0)            | (3.7)                | )% |
| Asia Pacific  | 32.9                            | 41.3    | (8.4)            | (20.3)               | )% |
|               | \$439.3                         | \$497.1 | \$(57.8)         | (11.6)               | )% |



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The table below illustrates our gross premiums written by line of business for each of the periods indicated.

|           | Three Months Ended |                          | Dollar<br>Change | Percentage<br>Change |
|-----------|--------------------|--------------------------|------------------|----------------------|
|           | March 31,<br>2015  | 2014<br>(\$ in millions) |                  |                      |
| Property  | \$231.1            | \$250.5                  | \$(19.4          | ) (7.7 )%            |
| Specialty | 146.1              | 161.5                    | (15.4            | ) (9.5 )%            |
| Casualty  | 62.1               | 85.1                     | (23.0            | ) (27.0 )%           |
|           | \$439.3            | \$497.1                  | \$(57.8          | ) (11.6 )%           |

Net premiums written decreased by \$60.6 million, or 12.3%, primarily due to the decrease in gross premiums written, as well as the cost of our collateralized property catastrophe reinsurance coverage in the current period that we did not have in the prior period.

Net premiums earned decreased by \$24.3 million, or 10.6%, as a result of the decrease in net premiums written during 2015 and the ceded premiums earned for the collateralized property catastrophe reinsurance coverage.

Net losses and loss expenses. Net losses and loss expenses decreased by \$0.5 million, or 0.5%, for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The following is a breakdown of the loss and loss expense ratio for the three months ended March 31, 2015 and 2014:

|                                 | Three Months Ended<br>March 31, 2015 |          | Three Months Ended<br>March 31, 2014 |          | Dollar<br>Change | Change in<br>Percentage<br>Points |
|---------------------------------|--------------------------------------|----------|--------------------------------------|----------|------------------|-----------------------------------|
|                                 | Amount                               | % of NPE | Amount<br>(\$ in<br>millions)        | % of NPE |                  |                                   |
| Non-catastrophe                 | \$132.4                              | 64.4     | % \$130.0                            | 56.5     | % \$2.4          | 7.9                               |
| Property catastrophe            | —                                    | —        | —                                    | —        | —                | —                                 |
| Current period                  | 132.4                                | 64.4     | 130.0                                | 56.5     | 2.4              | 7.9                               |
| Prior period                    | (23.2                                | ) (11.3  | ) (20.3                              | ) (8.8   | ) (2.9           | ) (2.5                            |
| Net losses and loss<br>expenses | \$109.2                              | 53.1     | % \$109.7                            | 47.7     | % \$(0.5         | ) 5.4                             |

#### Current year non-catastrophe losses and loss expenses

The increase in the non-catastrophe losses and loss expenses and related ratio was primarily due to higher loss ratio assumptions and higher reported large property losses of \$5.0 million during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The higher reported large property losses increased the loss and loss expense ratio by 2.4 percentage points.

#### Current year property catastrophe losses and loss expenses

During the three months ended March 31, 2015 and March 31, 2014, we did not have any net losses incurred that we classified as property catastrophe losses.

#### Prior year losses and loss expenses

Overall, our Reinsurance segment recorded net favorable reserve development of \$23.2 million during the three months ended March 31, 2015 compared to net favorable reserve development of \$20.3 million for the three months ended March 31, 2014, as shown in the tables below.





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## (Favorable) and Unfavorable Loss Reserve Development by Loss Year

For the Three Months Ended March 31, 2015

|           | 2009 and<br>Prior | 2010     | 2011     | 2012     | 2013     | 2014      | Total     |
|-----------|-------------------|----------|----------|----------|----------|-----------|-----------|
|           | (\$ in millions)  |          |          |          |          |           |           |
| Property  | \$(1.3 )          | \$(0.1 ) | \$0.2    | \$(0.6 ) | \$(0.7 ) | \$(11.3 ) | \$(13.8 ) |
| Casualty  | (10.7 )           | (7.6 )   | (0.7 )   | 1.7      | 3.3      | 0.5       | (13.5 )   |
| Specialty | (0.1 )            | —        | —        | (0.1 )   | (0.3 )   | 4.6       | 4.1       |
|           | \$(12.1 )         | \$(7.7 ) | \$(0.5 ) | \$1.0    | \$2.3    | \$(6.2 )  | \$(23.2 ) |

The net favorable reserve development in the 2014 loss year was due to favorable reserve development in the property reinsurance line of business due to benign reported loss activity partially offset by unfavorable development in the specialty reinsurance line of business primarily due to higher than expected reported losses in our crop reinsurance line of business. We also experienced net favorable development in the 2009 and prior loss years in our casualty reinsurance line of business, primarily in our U.S. and Bermuda casualty reinsurance lines, as a result of actual loss emergence being lower than anticipated in the 2008 and 2009 loss years.

## (Favorable) and Unfavorable Loss Reserve Development by Loss Year

For the Three Months Ended March 31, 2014

|           | 2008 and<br>Prior | 2009     | 2010  | 2011     | 2012     | 2013      | Total     |
|-----------|-------------------|----------|-------|----------|----------|-----------|-----------|
|           | (\$ in millions)  |          |       |          |          |           |           |
| Property  | \$(0.6 )          | \$(0.1 ) | \$0.6 | \$(0.7 ) | \$(1.7 ) | \$(13.7 ) | \$(16.2 ) |
| Casualty  | (5.4 )            | 0.2      | 0.8   | 0.9      | 0.7      | 2.2       | (0.6 )    |
| Specialty | 0.2               | 0.1      | 0.1   | —        | (1.1 )   | (2.8 )    | (3.5 )    |
|           | \$(5.8 )          | \$0.2    | \$1.5 | \$0.2    | \$(2.1 ) | \$(14.3 ) | \$(20.3 ) |

The net favorable reserve development in the property reinsurance line of business for the 2013 loss year was due to benign reported loss activity.

Acquisition costs. Acquisition costs decreased by \$0.5 million, or 1.2%, for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The decrease was due to lower net premiums written largely offset by higher commissions charged by cedents across most lines of business. The acquisition cost ratio was 19.8% for the three months ended March 31, 2015 compared to 17.9% for the three months ended March 31, 2014. The increase in the acquisition cost ratio was due to higher ceding commission charged by cedents and the decrease in net premiums earned.

General and administrative expenses. General and administrative expenses increased by \$1.7 million, or 9.4%, for the three months ended March 31, 2015 compared to the same period in 2014. The increase in general and administrative expenses was primarily due to higher stock-based compensation expense, due to the change in our stock price, and increased building-related costs. The general and administrative expense ratios for the three months ended March 31, 2015 and 2014 were 9.6% and 7.9%, respectively. The increase in the general and administrative expenses ratio was due to the higher general and administrative expenses and lower net premiums earned.



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## Reserves for Losses and Loss Expenses

Reserves for losses and loss expenses by segment were comprised of the following:

|  | North American Insurance |              | Global Markets Insurance |              | Reinsurance  |              | Total        |              |
|--|--------------------------|--------------|--------------------------|--------------|--------------|--------------|--------------|--------------|
|  | Mar 31, 2015             | Dec 31, 2014 | Mar 31, 2015             | Dec 31, 2014 | Mar 31, 2015 | Dec 31, 2014 | Mar 31, 2015 | Dec 31, 2014 |
|  | (\$ in millions)         |              |                          |              |              |              |              |              |
| Case reserves                            | \$863.3                  | \$937.7      | \$121.3                  | \$117.8      | \$429.9      | \$458.6      | \$1,414.5    | \$1,514.1    |
| IBNR                                     | 2,943.1                  | 2,868.9      | 460.1                    | 450.4        | 1,087.4      | 1,047.8      | 4,490.6      | 4,367.1      |
| Reserve for losses and loss expenses     | 3,806.4                  | 3,806.6      | 581.4                    | 568.2        | 1,517.3      | 1,506.4      | 5,905.1      | 5,881.2      |
| Reinsurance recoverables                 | (1,155.6 )               | (1,156.4 )   | (183.2 )                 | (173.2 )     | (11.5 )      | (10.7 )      | (1,350.3 )   | (1,340.3 )   |
| Net reserve for losses and loss expenses | \$2,650.8                | \$2,650.2    | \$398.2                  | \$395.0      | \$1,505.8    | \$1,495.7    | \$4,554.8    | \$4,540.9    |

We participate in certain lines of business where claims may not be reported for many years. Accordingly, management does not solely rely upon reported claims on these lines for estimating ultimate liabilities. We also use statistical and actuarial methods to estimate expected ultimate losses and loss expenses. Loss reserves do not represent an exact calculation of liability. Rather, loss reserves are estimates of what we expect the ultimate resolution and administration of claims will cost. These estimates are based on various factors including underwriters' expectations about loss experience, actuarial analysis, comparisons with the results of industry benchmarks and loss experience to date. Loss reserve estimates are refined as experience develops and as claims are reported and resolved. Establishing an appropriate level of loss reserves is an inherently uncertain process. Ultimate losses and loss expenses may differ from our reserves, possibly by material amounts.

The following tables provide our ranges of loss and loss expense reserve estimates by business segment as of March 31, 2015:

|                          | Reserve for Losses and Loss Expenses<br>Gross of Reinsurance Recoverable |              |               |
|--------------------------|--|--------------|---------------|
|                          | Carried Reserves   | Low Estimate | High Estimate |
|                          | (\$ in millions)   |              |               |
| North American Insurance | \$3,806.4  | \$3,008.7    | \$4,197.9     |
| Global Markets Insurance | 581.4  | 472.8        | 637.7         |
| Reinsurance              | 1,517.3  | 1,212.8      | 1,696.7       |
| Consolidated (1)         | 5,905.1  | 4,785.5      | 6,441.2       |
|                          | Reserve for Losses and Loss Expenses<br>Net of Reinsurance Recoverable   |              |               |
|                          | Carried Reserves   | Low Estimate | High Estimate |
|                          | (\$ in millions)   |              |               |
| North American Insurance | \$2,650.8  | \$2,106.3    | \$2,978.9     |
| Global Markets Insurance | 398.2  | 327.9        | 438.6         |
| Reinsurance              | 1,505.8  | 1,205.2      | 1,684.9       |
| Consolidated (1)         | 4,554.8  | 3,719.4      | 5,022.4       |

(1)

For statistical reasons, it is not appropriate to add together the ranges of each business segment in an effort to determine the low and high range around the consolidated loss reserves.

Our range for each business segment was determined by utilizing multiple actuarial loss reserving methods along with various assumptions of reporting patterns and expected loss ratios by loss year. The various outcomes of these techniques were combined to determine a reasonable range of required loss and loss expense reserves. While we believe our approach to determine the range of loss and loss expense is reasonable, there are no assurances that actual loss experience will be within the ranges of loss and loss expense noted above.

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Our selection of the actual carried reserves is generally above the midpoint of the range. We believe that we should be prudent in our reserving practices due to the lengthy reporting patterns and relatively large limits of net liability for any one risk of our direct excess casualty business and of our casualty reinsurance business. Thus, due to this uncertainty regarding estimates for reserves for losses and loss expenses, we have carried our consolidated reserves for losses and loss expenses, net of reinsurance recoverable, above the midpoint of the low and high estimates for the consolidated net losses and loss expenses. We believe that relying on the more prudent actuarial indications is appropriate for these lines of business.

## Reinsurance Recoverable

The following table illustrates our reinsurance recoverable as of March 31, 2015 and December 31, 2014:

|                         | March 31,<br>2015 | December 31,<br>2014 |
|-------------------------|-------------------|----------------------|
|                         | (\$ in millions)  |                      |
| Ceded case reserves     | \$213.3           | \$232.6              |
| Ceded IBNR reserves     | 1,137.0           | 1,107.7              |
| Reinsurance recoverable | \$1,350.3         | \$1,340.3            |

We remain obligated for amounts ceded in the event our reinsurers do not meet their obligations. Accordingly, we have evaluated the reinsurers that are providing reinsurance protection to us and will continue to monitor their credit ratings and financial stability. We generally have the right to terminate our treaty reinsurance contracts at any time, upon prior written notice to the reinsurer, under specified circumstances, including the assignment to the reinsurer by A.M. Best of a financial strength rating of less than "A-." Approximately 99% of ceded reserves as of March 31, 2015 were recoverable from reinsurers who had an A.M. Best rating of "A-" or higher.

## Liquidity and Capital Resources

## Liquidity

Liquidity is a measure of our ability to access sufficient cash flows to meet the short-term and long-term cash requirements of our business operations. The company believes that its cash flows from operations and investments will provide sufficient liquidity for the foreseeable future.

Holdings is a holding company and transacts no business of its own. Cash flows to Holdings may comprise dividends, advances and loans from its subsidiary companies. Holdings is therefore reliant on receiving dividends and other permitted distributions from its subsidiaries to make dividend payments on its common shares.

Our operating subsidiaries depend upon cash inflows from premium receipts, net of commissions, investment income and proceeds from sales and redemptions of investments. Cash outflows for our operating subsidiaries are in the form of claims payments, net of reinsurance recoveries, reinsurance premium payments, purchase of investments, operating expenses and income tax payments as well as dividend payments to the holding company.

Historically, our operating subsidiaries have generated sufficient cash flows to meet all of their obligations. Because of the inherent volatility of our business, the seasonality in the timing of payments by insureds and cedents, the irregular timing of loss payments, and the impact of a change in interest rates and credit spreads on the investment income as well as seasonality in coupon payment dates for fixed income securities, cash flows from operating activities may vary between periods. In the unlikely event that paid losses exceed operating cash flows in any given

period, we would use our cash balances available, liquidate a portion of our investment portfolio or borrow under our revolving loan facility (see "Credit Facilities" below) in order to meet our short-term liquidity needs.

Our total investments and cash and cash equivalents totaled \$8.6 billion as of March 31, 2015, the main components of which were investment grade fixed income securities and cash and cash equivalents. As of March 31, 2015, we held \$515.1 million of unrestricted cash and cash equivalents and \$226.0 million of fixed income securities with a maturity of less than one year to meet short-term liquidity needs. Our remaining fixed income securities, equity securities and "other invested assets" are available to meet our long-term liquidity needs.

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As of March 31, 2015, we had \$150 million available under our revolving loan facility.

## Dividend Restrictions

The jurisdictions in which our operating subsidiaries are licensed to write business impose regulations requiring companies to maintain or meet various defined statutory ratios, including solvency and liquidity requirements. Some jurisdictions also place restrictions on the declaration and payment of dividends and other distributions. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" in the Company's 2014 Form 10-K.

## Cash Flows

|  | Three Months Ended |         |
|--|--------------------|---------|
|  | March 31,          |         |
|  | 2015               | 2014    |
|  | (\$ in millions)   |         |
| Cash flows provided by operating activities              | \$317.6            | \$303.1 |
| Cash flows used in investing activities                  | (319.1)            | (188.5) |
| Cash flows used in financing activities                  | (67.7)             | (82.4)  |
| Effect of exchange rate changes on foreign currency cash | (5.0)              | 1.7     |
| Net (decrease) increase in cash and cash equivalents     | (74.2)             | 33.9    |
| Cash and cash equivalents, beginning of period           | 589.3              | 531.9   |
| Cash and cash equivalents, end of period                 | \$515.1            | \$565.8 |

The primary sources of cash inflows from operating activities are premiums received, loss payments from reinsurers, return of funds held balances related to our assumed collateralized property catastrophe reinsurance program through Aeolus Re Ltd. ("Aeolus Re") and investment income. The primary sources of cash outflows from operating activities are ceded premiums paid to reinsurers, claims paid, contributions of funds held balances, commissions paid, operating expenses, interest expense and income taxes. The primary factor in our ability to generate positive operating cash flow is underwriting profitability. We have generated positive operating cash flow for more than 11 consecutive years.

In our casualty lines of business, claims may be reported and settled many years after the coverage period has terminated. As a result, we expect that we will generate significant operating cash flow as we accumulate casualty loss reserves on our balance sheet. In our property lines of business, claims are generally reported and paid within a relatively short period of time and we expect volatility in our operating cash flows as losses are incurred. We expect increases in the amount of expected loss payments in future periods with a resulting decrease in operating cash flow; however, we do not expect loss payments to exceed the premiums generated. Actual premiums written and collected and losses and loss expenses paid in any period could vary materially from our expectations and could have a significant and adverse effect on operating cash flow.

## Investments

Our funds are primarily invested in liquid, high-grade fixed income securities. As of March 31, 2015 and December 31, 2014, 88.6% and 88.5%, respectively, of our fixed income portfolio consisted of investment grade securities. The maturity distribution of our fixed-maturity portfolio (on a fair value basis) as of March 31, 2015 and December 31, 2014 was as follows:

|                         | March 31,        | December 31, |
|-------------------------|------------------|--------------|
|                         | 2015             | 2014         |
|                         | (\$ in millions) |              |
| Due in one year or less | \$226.0          | \$250.4      |



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|  |           |           |
|--|-----------|-----------|
| Due after one year through five years  | 3,262.6   | 3,167.8   |
| Due after five years through ten years | 677.8     | 637.2     |
| Due after ten years                    | 107.4     | 79.3      |
| Mortgage-backed                        | 1,286.2   | 1,263.5   |
| Asset-backed                           | 728.9     | 670.8     |
| Total                                  | \$6,288.9 | \$6,069.0 |

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We have investments in "other invested assets", comprising interests in hedge funds, private equity funds, other private securities and high yield loan funds, the carrying value of which was \$926.4 million as of March 31, 2015. Some of these funds have redemption notice requirements. For each of our funds, liquidity is allowed after certain defined periods based on the terms of each fund. See Note 4(b) "Investments — Other Invested Assets" to our unaudited condensed consolidated financial statements for additional details on our other invested assets.

We do not believe that inflation has had a material effect on our consolidated results of operations. The potential exists, after a catastrophe loss, for the development of inflationary pressures in a local economy. The effects of inflation are considered implicitly in pricing. Loss reserves are established to recognize likely loss settlements at the date payment is made. Those reserves inherently recognize the effects of inflation. The actual effects of inflation on our results cannot be accurately known, however, until claims are ultimately resolved.

## Credit Facilities

In the normal course of our operations, we enter into agreements with financial institutions to obtain secured and unsecured credit facilities.

Allied World Assurance Company, Ltd currently has access to up to \$1.15 billion in letters of credit under two letter of credit facilities, a \$1.0 billion uncommitted secured facility with Citibank Europe plc and a \$150 million committed secured credit facility with a syndication of lenders (the "Amended Secured Credit Facility"). These credit facilities are primarily for the issuance of standby letters of credit to support obligations in connection with the insurance and reinsurance business.

The letters of credit issued under the credit facility with Citibank Europe plc are deemed to be automatically extended without amendment for twelve months from the expiry date, or any future expiration date unless at least 30 days prior to any expiration date Citibank Europe plc notifies us that they elect not to consider the letters of credit renewed for any such additional period.

A portion of the Amended Secured Credit Facility may also be used for revolving loans for general corporate and working capital purposes, up to a maximum of \$150 million. We may request that existing lenders under the Amended Secured Credit Facility make additional commitments from time to time, up to \$150 million, subject to approval by the lenders. The Amended Secured Credit Facility contains representations, warranties and covenants customary for similar bank loan facilities, including certain covenants that, among other things, require us to maintain a certain leverage ratio and financial strength rating. We are in compliance with all covenants under the Amended Secured Credit Facility as of March 31, 2015.

As of March 31, 2015, we had a combined unused letters of credit capacity of \$659.6 million from the Amended Secured Credit Facility and Citibank Europe plc. We believe that this remaining capacity is sufficient to meet our future letter of credit needs. During the three months ended March 31, 2015, we did not utilize the revolving loan available under the Amended Secured Credit Facility.

In September 2014, Allied World Assurance Company, AG entered into a 20-year mortgage commitment with a Swiss bank for the purchase of three floors in an office building in Zug, Switzerland. See "Long-Term Debt" below for additional information regarding the 20-year mortgage commitment. In conjunction with the mortgage commitment, Allied World Assurance Company, AG entered into a three-year credit facility with a Swiss bank that provided us \$5.2 million (CHF 5.0 million) for general corporate purposes; however, we used the proceeds from the credit facility to fund the purchase of three floors of the office building in Zug, Switzerland. The interest rate for the credit facility is 2.5%.

Pledged Assets

We use trust accounts primarily to meet security requirements for inter-company and certain reinsurance transactions. We also have cash and cash equivalents and investments on deposit with various state or government insurance departments or pledged in favor of ceding companies in order to comply with reinsurance contract provisions and relevant insurance regulations. In addition, our credit facilities are collateralized, at least to the extent of letters of credit outstanding at any given time.

Security arrangements with ceding insurers may subject our assets to security interests or require that a portion of our assets be pledged to, or otherwise held by, third parties. Both of our letter of credit facilities are fully collateralized by assets held in custodial accounts at the Bank of New York Mellon held for the benefit of the banks. Although the investment income derived from our assets while held in trust accrues to our benefit, the investment of these assets is governed by the terms of the letter of credit facilities or the investment regulations of the state or territory of domicile of the ceding insurer, which may be

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more restrictive than the investment regulations otherwise applicable to us. The restrictions may result in lower investment yields on these assets, which may adversely affect our profitability.

As of March 31, 2015 and December 31, 2014, \$3,114.1 million and \$3,585.8 million, respectively, of cash and cash equivalents and investments were deposited, pledged or held in escrow accounts in favor of ceding companies and other counterparties or government authorities to comply with reinsurance contract provisions, insurance laws and other contract provisions.

In addition, as of March 31, 2015 and December 31, 2014, a further \$599.7 million and \$571.8 million, respectively, of cash and cash equivalents and investments were pledged as collateral for our credit facilities.

We do not currently anticipate that the restrictions on liquidity resulting from restrictions on the payment of dividends by our subsidiary companies or from assets committed in trust accounts or to collateralize the letter of credit facilities will have a material impact on our ability to carry out our normal business activities, including interest and dividend payments, respectively, on our senior notes (described below) and common shares.

## Financial Strength Ratings

Financial strength ratings represent the opinions of rating agencies on our capacity to meet our obligations. In the event of a significant downgrade in ratings, our ability to write business and to access the capital markets could be impacted. Our financial strength ratings as of March 31, 2015 have not changed since December 31, 2014. See Item 1. “Business” in our 2014 Form 10-K.

## Capital Resources

The table below sets forth the capital structure of the Company as of March 31, 2015 and December 31, 2014:

|                              | March 31,<br>2015 | December 31,<br>2014 |   |
|------------------------------|-------------------|----------------------|---|
|                              | (\$ in millions)  |                      |   |
| Senior notes                 | \$798.9           | \$798.8              |   |
| Other long-term debt         | 19.7              | 19.2                 |   |
| Shareholders' equity         | 3,829.1           | 3,778.3              |   |
| Total capitalization         | \$4,647.7         | \$4,596.3            |   |
| Debt to total capitalization | 17.6              | % 17.8               | % |

On September 10, 2012, we filed a shelf registration statement on Form S-3 with the U.S. Securities and Exchange Commission in which we may offer from time to time common shares of Allied World Switzerland, senior or subordinated debt securities of Allied World Bermuda, guarantees of debt securities of Allied World Bermuda, warrants to purchase common shares of Allied World Switzerland, warrants to purchase debt securities of Allied World Bermuda or units which may consist of any combination of the securities listed above. The registration statement is intended to provide us with additional flexibility to access capital markets for general corporate purposes, subject to market conditions and our capital needs.

## Share Repurchases

On May 1, 2014, our shareholders approved a share repurchase program in order for us to repurchase up to \$500.0 million of our common shares. Under the terms of this share repurchase program, the first three million of common shares repurchased will remain in treasury and will be used by us to satisfy share delivery obligations under our equity-based compensation plans. Any additional common shares will be designated for cancellation at acquisition

and will be canceled upon shareholder approval. As of March 31, 2015, approximately \$367.4 million remained under this share repurchase authorization.

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During the three months ended March 31, 2015, our share repurchases were as follows:

|                                  | Three Months<br>Ended<br>March 31, 2015<br>(\$ in millions other<br>than per share<br>amounts) |
|----------------------------------|--|
| Common shares repurchased        | 1,271,213  |
| Total cost of shares repurchased | \$50.9   |
| Average price per share          | \$40.08  |

Shares repurchased by the Company and not designated for cancellation are classified as “Treasury shares, at cost” on the consolidated balance sheets. The Company will issue shares out of treasury principally related to the Company’s employee benefit plans. Shares repurchased and designated for cancellation are constructively retired and recorded as a share cancellation.

Long-Term Debt

In July 2006, Allied World Bermuda issued \$500.0 million aggregate principal amount of 7.50% senior notes due August 1, 2016, with interest payable in arrears August 1 and February 1 each year. Allied World Bermuda can redeem the senior notes prior to maturity, subject to payment of a “make-whole” premium; however, Allied World Bermuda currently has no intention of redeeming the notes.

In November 2010, Allied World Bermuda issued \$300.0 million aggregate principal amount of 5.50% senior notes due November 1, 2020, with interest payable in arrears May 15 and November 15 each year, commencing May 15, 2011. Allied World Bermuda can redeem the senior notes prior to maturity, subject to payment of a “make-whole” premium; however, Allied World Bermuda currently has no intention of redeeming the notes.

The senior notes issued in 2006 and 2010 have been unconditionally and irrevocably guaranteed for the payment of the principal and interest by Holdings.

In September 2014, Allied World Assurance Company, AG entered into a 20-year mortgage commitment with a Swiss bank for the purchase of three floors in an office building in Zug, Switzerland. The total proceeds received in 2014 under the mortgage was \$14.1 million (CHF 14.0 million) with a fixed annual interest rate of 3.2% payable quarterly, and an additional \$4.1 million (CHF 4.0 million) of proceeds from the mortgage was received in April 2015. The mortgage payments will be \$0.3 million (CHF 0.3 million) per year, plus accrued interest, for the first 19 years with the remaining balance payable at the end of the mortgage.

Off-Balance Sheet Arrangements

As of March 31, 2015, we did not have any off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We believe that we are principally exposed to three types of market risk: interest rate risk, credit risk and currency risk.

The fixed income securities in our investment portfolio are subject to interest rate risk and credit risk. Any changes in interest rates and credit spreads have a direct effect on the fair values of fixed income securities. As interest rates rise, the fair values fall, and vice versa. As credit spreads widen, the fair values fall, and vice versa.

In the table below changes in fair values as a result of changes in interest rates are determined by calculating hypothetical March 31, 2015 ending prices based on yields adjusted to reflect the hypothetical changes in interest rates, comparing such hypothetical ending prices to actual ending prices, and multiplying the difference by the

principal amount of the security. The sensitivity analysis is based on estimates. The estimated changes of our fixed maturity investments and cash and cash equivalents are presented below and actual changes for interest rate shifts could differ significantly.

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|  | Interest Rate Shift in Basis Points |           |           |           |           |           |           |
|--|-------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
|  | -200                                | -100      | -50       | —         | +50       | +100      | +200      |
|  | (\$ in millions)                    |           |           |           |           |           |           |
| Total fair value                                 | \$7,068.9                           | \$6,973.0 | \$6,915.9 | \$6,853.9 | \$6,791.7 | \$6,729.6 | \$6,606.1 |
| Fair value change from base                      | 215.0                               | 119.1     | 62.0      | —         | (62.2 )   | (124.3 )  | (247.8 )  |
| Change in unrealized appreciation/(depreciation) | 3.1                                 | % 1.7     | % 0.9     | % —       | % (0.9 )  | % (1.8 )  | % (3.6 )  |

In the table below changes in fair values as a result of changes in credit spreads are determined by calculating hypothetical March 31, 2015 ending prices adjusted to reflect the hypothetical changes in credit spreads, comparing such hypothetical ending prices to actual ending prices, and multiplying the difference by the principal amount of the security. The sensitivity analysis is based on estimates. The estimated changes of our non-cash, non-U.S. Treasury fixed maturity investments are presented below and actual changes in credit spreads could differ significantly.

|  | Credit Spread Shift in Basis Points |           |           |           |           |           |           |
|--|-------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
|  | -200                                | -100      | -50       | —         | +50       | +100      | +200      |
|  | (\$ in millions)                    |           |           |           |           |           |           |
| Total fair value                                 | \$5,003.1                           | \$4,912.3 | \$4,866.9 | \$4,821.5 | \$4,776.2 | \$4,730.8 | \$4,640.0 |
| Fair value change from base                      | 181.6                               | 90.8      | 45.4      | —         | (45.3 )   | (90.7 )   | (181.5 )  |
| Change in unrealized appreciation/(depreciation) | 3.8                                 | % 1.9     | % 0.9     | % —       | % (0.9 )  | % (1.9 )  | % (3.8 )  |

In addition to credit spread risk, our portfolio is also exposed to the risk of securities being downgraded or of issuers defaulting. In an effort to minimize this risk, our investment guidelines have been defined to ensure that the assets held are well diversified and are primarily high-quality securities.



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The following table shows the types of securities in our portfolio, their fair market values, average rating and portfolio percentage as of March 31, 2015.

|  | Fair Value<br>March 31,<br>2015<br>(\$ in millions) | Average<br>Rating | Portfolio<br>Percentage |   |
|--|---|-------------------|-------------------------|---|
| Cash and cash equivalents                        | \$565.0   | AAA               | 6.5                     | % |
| U.S. government securities                       | 1,467.4   | AA+               | 17.0                    | % |
| U.S. government agencies                         | 110.4   | AA+               | 1.3                     | % |
| Non-U.S. government and government agencies      | 189.4   | AA+               | 2.2                     | % |
| State, municipalities and political subdivisions | 178.6   | A                 | 2.1                     | % |
| Mortgage-backed securities ("MBS"):              |   |                   |                         |   |
| Agency MBS                                       | 575.7   | AA+               | 6.7                     | % |
| Non-agency MBS                                   | 105.9   | B+                | 1.2                     | % |
| Commercial MBS                                   | 604.6   | BBB+              | 7.0                     | % |
| Total mortgage-backed securities                 | 1,286.2   |                   | 14.9                    | % |
| Corporate securities:                            |   |                   |                         |   |
| Financials                                       | 1,107.1   | A                 | 12.8                    | % |
| Industrials                                      | 1,107.5   | BBB               | 12.8                    | % |
| Utilities  | 113.4   | BBB               | 1.3                     | % |
| Total corporate securities                       | 2,328.0   |                   | 26.9                    | % |
| Asset-backed securities:                         |   |                   |                         |   |
| Credit cards                                     | 75.6  | AAA               | 1.0                     | % |
| Auto receivables                                 | 51.1  | AAA               | 0.6                     | % |
| Student Loans                                    | 167.5   | AAA               | 1.9                     | % |
| Collateralized loan obligations                  | 376.1   | AA                | 4.4                     | % |
| Other  | 58.6  | AAA               | 0.7                     | % |
| Total asset-backed securities                    | 728.9   |                   | 8.5                     | % |
| Other invested assets:                           |   |                   |                         |   |
| Private equity                                   | 365.0   | N/A               | 4.2                     | % |
| Hedge funds                                      | 397.2   | N/A               | 4.6                     | % |
| Other private securities                         | 133.8   | N/A               | 1.5                     | % |
| High yield loan fund                             | 30.4  | N/A               | 0.4                     | % |
| Total other invested assets                      | 926.4   |                   | 10.7                    | % |
| Equities   | 856.7   | N/A               | 9.9                     | % |
| Total investment portfolio                       | \$8,637.0   |                   | 100.0                   | % |

As of March 31, 2015, we held \$6.3 billion of fixed income securities. Of those assets, approximately 88.6% were rated investment grade (Baa3/BBB- or higher) with the remaining 11.4% rated in the below investment grade category. The average credit quality of the fixed maturity portfolios was A+ by Standard & Poor's.

Our agency pass-through mortgage-backed securities are exposed to prepayment risk, which occurs when holders of individual mortgages increase the frequency with which they prepay the outstanding principal before the maturity date to refinance at a lower interest rate cost. Given the proportion that these securities comprise of the overall portfolio, and the current interest rate environment and condition of the credit market, prepayment risk is not considered significant at this time.

Our non-agency commercial mortgage-backed securities are subject to the risk of non-payment due to increased levels of delinquencies, defaults and losses on commercial loans that cumulatively create shortfalls beyond the level of subordination in our specific securities.

As of March 31, 2015, we held investments in "other invested assets" with a carrying value of \$926.4 million.

Included in other invested assets are private equity funds, hedge funds, other private securities and a high yield loan

fund. Investments in these types of assets involve certain risks related to, among other things, the illiquid nature of the fund shares,

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the limited operating history of these investments, as well as risks associated with the strategies employed by the managers of these investments. The funds' objectives are generally to seek attractive long-term returns with lower volatility by investing in a range of diversified investment strategies. As our reserves and capital continue to build, we may consider additional investments in these or other alternative investments.

As of March 31, 2015, our direct exposure to European credit across all of Europe was \$684.0 million as outlined in the table below and is included within "fixed maturity investments trading, at fair value" and "equity securities trading, at fair value" in the consolidated balance sheets. As of March 31, 2015, we had no direct sovereign exposure to Greece, Ireland, Italy, Portugal, Spain or Ukraine.

|                | March 31, 2015   |                        |                                    |                   |
|----------------|--|------------------------|------------------------------------|-------------------|
|                | Sovereign and<br>Sovereign<br>Guaranteed<br>(\$ in millions) | Structured<br>Products | Corporate<br>Bonds and<br>Equities | Total<br>Exposure |
| Austria        | \$—  | \$—                    | \$1.2                              | \$1.2             |
| Belgium        | —  | —                      | 19.1                               | 19.1              |
| Denmark        | —  | —                      | 4.8                                | 4.8               |
| Finland        | —  | —                      | 4.0                                | 4.0               |
| France         | 9.4  | —                      | 117.9                              | 127.3             |
| Germany        | 25.8   | —                      | 69.2                               | 95.0              |
| Greece         | —  | —                      | 2.3                                | 2.3               |
| Hungary        | —  | —                      | 0.6                                | 0.6               |
| Ireland        | —  | —                      | 10.4                               | 10.4              |
| Italy          | —  | —                      | 7.2                                | 7.2               |
| Luxembourg     | —  | 3.6                    | 10.3                               | 13.9              |
| Netherlands    | —  | —                      | 79.1                               | 79.1              |
| Norway         | 3.6  | —                      | 9.9                                | 13.5              |
| Portugal       | —  | —                      | 0.5                                | 0.5               |
| Russia         | —  | —                      | 0.4                                | 0.4               |
| Spain          | —  | —                      | 15.3                               | 15.3              |
| Sweden         | —  | —                      | 25.9                               | 25.9              |
| Switzerland    | 2.1  | —                      | 95.7                               | 97.8              |
| United Kingdom | 24.4   | 8.1                    | 133.2                              | 165.7             |
| Total exposure | \$65.3   | \$11.7                 | \$607.0                            | \$684.0           |

The U.S. dollar is our reporting currency and the functional currency of all of our operating subsidiaries. However, we enter into insurance and reinsurance contracts where the premiums receivable and losses payable are denominated in currencies other than the U.S. dollar. In addition, we maintain a portion of our investments and liabilities in currencies other than the U.S. dollar, primarily Euro, British pound sterling, Swiss Franc and the Canadian dollar. Receivables in non-U.S. currencies are generally converted into U.S. dollars at the time of receipt. When we incur a liability in a non-U.S. currency, we carry such liability on our books in the original currency. These liabilities are converted from the non-U.S. currency to U.S. dollars at the time of payment. As a result, we have an exposure to foreign currency risk resulting from fluctuations in exchange rates. We utilize a hedging strategy to minimize the potential loss of value caused by currency fluctuations by using foreign currency forward contract derivatives that expire in 90 days from purchase.

As of March 31, 2015 and December 31, 2014, approximately 4.2% and 3.7%, respectively, of our total investments and cash and cash equivalents were denominated in currencies other than the U.S. dollar. Of our business written during the three months ended March 31, 2015 and 2014, approximately 15% was written in currencies other than the U.S. dollar.

Item 4. Controls and Procedures.

In connection with the preparation of this quarterly report, our management has performed an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of March 31,

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2015. Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by SEC rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow for timely decisions regarding required disclosures. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2015, our Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by SEC rules and forms and accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosures.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide an absolute assurance that all control issues and instances of fraud, if any, within our Company have been detected.

No changes were made in our internal controls over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f), during the quarter ended March 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

The Company, in common with the insurance industry in general, is subject to litigation and arbitration in the normal course of its business. These legal proceedings generally relate to claims asserted by or against the Company in the ordinary course of insurance or reinsurance operations. Estimated amounts payable under these proceedings are included in the reserve for losses and loss expenses in the Company's consolidated balance sheets. As of March 31, 2015, the Company was not a party to any material legal proceedings arising outside the ordinary course of business that management believes will have a material adverse effect on the Company's results of operations, financial position or cash flow.

Item 1A. Risk Factors.

Our business is subject to a number of risks, including those identified in Item 1A. of Part I of our 2014 Form 10-K, that could have a material adverse effect on our business, results of operations, financial condition and/or liquidity and that could cause our operating results to vary significantly from period to period. There have been no material changes to the risk factors described in our 2014 Form 10-K. The risks described in our 2014 Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also could have a material adverse effect on our business, results of operations, financial condition and/or liquidity.

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## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(c) The following table summarizes our repurchases of our common shares during the three months ended March 31, 2015:

| Period                | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Dollar Value (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs |
|-----------------------|----------------------------------|------------------------------|--|--|
| January 1 - 31, 2015  | 216,982                          | \$37.77                      | 216,982  | \$410.2 million  |
| February 1 - 28, 2015 | 439,875                          | 40.36                        | 439,875  | 392.4 million  |
| March 1 - 31, 2015    | 614,356                          | 40.69                        | 614,356  | 367.4 million  |
| Total                 | 1,271,213                        | \$40.08                      | 1,271,213  | \$367.4 million(1)   |

At the 2014 Annual Shareholder Meeting on May 1, 2014, Holdings' shareholders approved a two-year \$500 million share repurchase program. Please see Part I, Item 2 - "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Share Repurchases" for more information about our share repurchase program. Share repurchases may be effected from time to time through open market purchases, privately negotiated transactions, tender offers or otherwise.

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Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

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Item 6. Exhibits.

| Exhibit Number | Description  |
|----------------|--|
| 2.1(1)         | Deed of Amendment, dated as of March 31, 2015, by and between Royal & Sun Alliance Insurance plc and Allied World Assurance Company, Ltd related to the Hong Kong branch.  |
| 2.2(2)         | Deed of Amendment, dated as of March 31, 2015, by and between Royal & Sun Alliance Insurance plc and Allied World Assurance Company, Ltd related to the Singapore branch.  |
| 3.1(3)         | Organizational Regulations of Allied World Assurance Company Holdings, AG, as amended and restated.  |
| 31.1           | Certification by Chief Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31.2           | Certification by Chief Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32.1*          | Certification by Chief Executive Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 32.2*          | Certification by Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 101.1          | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014, (ii) the Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2015 and 2014, (iii) the Consolidated Statements of Shareholders' Equity for the three months ended March 31, 2015 and 2014, (iv) the Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014 and (v) the Notes to the Consolidated Financial Statements. |

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(1) Incorporated herein by reference to Exhibit 2.1 to the Current Report on Form 8-K of Allied World Assurance Company Holdings, AG filed with the SEC on March 31, 2015.

(2) Incorporated herein by reference to Exhibit 2.2 to the Current Report on Form 8-K of Allied World Assurance Company Holdings, AG filed with the SEC on March 31, 2015.

(3) Incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K of Allied World Assurance Company Holdings, AG filed with the SEC on February 20, 2015.

\* These certifications are being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, chapter 63 of title 18 United States Code) and are not being filed as part of this report.



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SIGNATURES

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

ALLIED WORLD ASSURANCE COMPANY HOLDINGS,  
AG

Dated: April 22, 2015

By: /s/ Scott A. Carmilani  
Name: Scott A. Carmilani  
Title: President and Chief Executive Officer

Dated: April 22, 2015

By: /s/ Thomas A. Bradley  
Name: Thomas A. Bradley  
Title: Executive Vice President and Chief Financial Officer

Dated: April 22, 2015

By: /s/ Kent W. Ziegler  
Name: Kent W. Ziegler  
Title: Senior Vice President, Finance and Chief Accounting  
Officer

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