STANTON THOMAS R
Form 4/A
February 25, 2019

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
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(Print or Type Responses)

1. Name and Address of Reporting Person *
STANTON THOMAS R
(Last) (First) (Middle)
C/O ADTRAN, 901 EXPLORER BLVD.
(Street)
HUNTSVILLE, AL 35806
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
ADTRAN INC [ADTN]

3. Date of Earliest Transaction (Month/Day/Year)
11/09/2018

4. If Amendment, Date Original Filed(Month/Day/Year)
11/21/2018

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
CEO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	11/09/2018		A		42,647	A	$ 0	178,411 (1)	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
STANTON THOMAS R C/O ADTRAN 901 EXPLORER BLVD. HUNTSVILLE, AL 35806	X		CEO	

Signatures

Roger Shannon, by Power of Attorney	02/25/2019
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The reporting person is filing this amendment to correct the number of shares of the Company's common stock beneficially owned after reported transaction. The previous reported total was 157,366 shares of the Company's common stock.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Due from subsidiaries
111,172

122,846

123,479

(357,497

)

—

Other assets
1,757

4,671

643,353

—

649,781

Total assets
$
3,536,720

$
4,148,911

$
12,049,316

$
(7,789,117
)

$
11,945,830

LIABILITIES:

Reserve for losses and loss expenses
$

—

$
—

$
5,766,529

$
—

$
5,766,529

Unearned premiums
—

—

1,396,256

—

1,396,256

Reinsurance balances payable
—

—

173,023

—

173,023

Balances due on purchases of investments
—

—

104,740

—

104,740

Senior notes
—

798,499

—

—

798,499

Due to subsidiaries
12,945

110,534

234,018

(357,497
)

—

Other liabilities
3,949

17,797

165,211

—

186,957

Total liabilities
16,894

926,830

7,839,777

(357,497
)

8,426,004

Total shareholders’ equity
3,519,826

3,222,081

4,209,539

(7,431,620
)

3,519,826

Total liabilities and shareholders’ equity
$
3,536,720

$
4,148,911

$
12,049,316

$
(7,789,117

)

$
11,945,830

The investment in subsidiaries and total shareholders' equity balances reported above in the Unaudited Condensed Consolidating Balance Sheet for Allied World Bermuda (Subsidiary Issuer) as of December 31, 2013 were reduced by $776,000 from the previously reported amounts to properly record intercompany dividends as a reduction in the investment in subsidiaries balance due to a miscalculation. Since the intercompany dividends were eliminated in consolidation there was no impact to consolidated total shareholders' equity.

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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 June 30, 2014	Allied World Switzerland (Parent Guarantor)	Allied World Bermuda (Subsidiary Issuer)	Other Allied World Subsidiaries	Consolidating Adjustments	Allied World Switzerland Consolidated
Net premiums earned	$—	$—	$537,247	$—	$537,247
Net investment income	2	—	36,791	—	36,793
Net realized investment gains (losses)	—	—	85,217	—	85,217
Net losses and loss expenses	—	—	(314,855)	—	(314,855)
Acquisition costs	—	—	(74,279)	—	(74,279)
General and administrative expenses	(10,813)	1,654	(87,029)	—	(96,188)
Amortization of intangible assets	—	—	(634)	—	(634)
Interest expense	—	(13,853)	(739)	—	(14,592)
Foreign exchange gain (loss)	(2)	(12)	(637)	—	(651)
Income tax (expense) benefit	323	—	(6,518)	—	(6,195)
Equity in earnings of consolidated subsidiaries	162,353	170,796	—	(333,149)	—
NET INCOME (LOSS)	$151,863	$158,585	$174,564	$(333,149)	$151,863
Other comprehensive income	—	—	—	—	—
COMPREHENSIVE INCOME (LOSS)	$151,863	$158,585	$174,564	$(333,149)	$151,863

Three Months Ended June 30, 2013	Allied World Switzerland (Parent Guarantor)	Allied World Bermuda (Subsidiary Issuer)	Other Allied World Subsidiaries	Consolidating Adjustments	Allied World Switzerland Consolidated
Net premiums earned	$—	$—	$507,271	$—	$507,271
Net investment income	1	2	37,632	—	37,635
Net realized investment gains (losses)	—	—	(115,198)	—	(115,198)
Net losses and loss expenses	—	—	(275,128)	—	(275,128)
Acquisition costs	—	—	(64,617)	—	(64,617)
General and administrative expenses	(8,566)	(455)	(71,564)	—	(80,585)
Amortization of intangible assets	—	—	(634)	—	(634)
Interest expense	—	(13,835)	(353)	—	(14,188)
Foreign exchange gain (loss)	2	(628)	136	—	(490)
Income tax (expense) benefit	—	—	4,072	—	4,072
Equity in earnings of consolidated subsidiaries	6,701	21,147	—	(27,848)	—
NET INCOME (LOSS)	$(1,862)	$6,231	$21,617	$(27,848)	$(1,862)
Other comprehensive income	—	—	—	—	—
COMPREHENSIVE INCOME (LOSS)	$(1,862)	$6,231	$21,617	$(27,848)	$(1,862)

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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)

Six Months Ended June 30, 2014	Allied World Switzerland (Parent Guarantor)	Allied World Bermuda (Subsidiary Issuer)	Other Allied World Subsidiaries	Consolidating Adjustments	Allied World Switzerland Consolidated
Net premiums earned	$—	$—	$1,067,532	$—	$1,067,532
Net investment income	4	—	84,408	—	84,412
Net realized investment gains (losses)	—	—	139,422	—	139,422
Net losses and loss expenses	—	—	(590,141)	—	(590,141)
Acquisition costs	—	—	(142,001)	—	(142,001)
General and administrative expenses	(19,727)	(737)	(156,064)	—	(176,528)
Amortization of intangible assets	—	—	(1,267)	—	(1,267)
Interest expense	—	(27,700)	(1,426)	—	(29,126)
Foreign exchange gain (loss)	(4)	21	(717)	—	(700)
Income tax (expense) benefit	(86)	—	(22,682)	—	(22,768)
Equity in earnings of consolidated subsidiaries	348,648	369,803	—	(718,451)	—
NET INCOME (LOSS)	$328,835	$341,387	$377,064	$(718,451)	$328,835
Other comprehensive income	—	—	—	—	—
COMPREHENSIVE INCOME (LOSS)	$328,835	$341,387	$377,064	$(718,451)	$328,835

Six Months Ended June 30, 2013	Allied World Switzerland (Parent Guarantor)	Allied World Bermuda (Subsidiary Issuer)	Other Allied World Subsidiaries	Consolidating Adjustments	Allied World Switzerland Consolidated
Net premiums earned	$—	$—	$970,499	$—	$970,499
Net investment income	8	4	71,011	—	71,023
Net realized investment gains (losses)	—	—	(35,561)	—	(35,561)
Net losses and loss expenses	—	—	(530,306)	—	(530,306)
Acquisition costs	—	—	(121,302)	—	(121,302)
General and administrative expenses	(19,552)	(912)	(142,801)	—	(163,265)
Amortization of intangible assets	—	—	(1,267)	—	(1,267)
Interest expense	—	(27,665)	(657)	—	(28,322)
Foreign exchange gain (loss)	274	(723)	(2,559)	—	(3,008)
Income tax (expense) benefit	—	—	(1,361)	—	(1,361)
Equity in earnings of consolidated subsidiaries	176,400	202,627	—	(379,027)	—
NET INCOME (LOSS)	$157,130	$173,331	$205,696	$(379,027)	$157,130
Other comprehensive income	—	—	—	—	—
COMPREHENSIVE INCOME (LOSS)	$157,130	$173,331	$205,696	$(379,027)	$157,130

Explanation of Responses:

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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:

Six Months Ended June 30, 2014	Allied World Switzerland (Parent Guarantor)	Allied World Bermuda (Subsidiary Issuer)	Other Allied World Subsidiaries	Consolidating Adjustments	Allied World Switzerland Consolidated
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	$194,890	$(1,489)	$258,707	$—	$452,108
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:					
Purchases trading securities	—	—	(3,905,650)	—	(3,905,650)
Purchases of other invested assets	—	—	(181,419)	—	(181,419)
Sales of trading securities	—	—	3,705,229	—	3,705,229
Sales of other invested assets	—	—	184,166	—	184,166
Other	—	—	13,472	—	13,472
Net cash provided by (used in) investing activities	—	—	(184,202)	—	(184,202)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:					
Dividends paid	(33,207)	—	—	—	(33,207)
Proceeds from the exercise of stock options	6,313	—	—	—	6,313
Share repurchases	(137,810)	—	—	—	(137,810)
Net cash provided by (used in) financing activities	(164,704)	—	—	—	(164,704)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	30,186	(1,489)	74,505	—	103,202
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	10,790	2,775	518,371	—	531,936
CASH AND CASH EQUIVALENTS, END OF PERIOD	$40,976	$1,286	$592,876	$—	$635,138

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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)

Six Months Ended June 30, 2013	Allied World Switzerland (Parent Guarantor)	Allied World Bermuda (Subsidiary Issuer)	Other Allied World Subsidiaries	Consolidating Adjustments	Allied World Switzerland Consolidated
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:	$73,938	$(3,025)	$54,993	$—	$125,906
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:					
Purchases of trading securities	—	—	(3,186,162)	—	(3,186,162)
Purchases of other invested assets	—	—	(141,805)	—	(141,805)
Sales of trading securities	—	—	3,171,977	—	3,171,977
Sales of other invested assets	—	—	126,491	—	126,491
Other	—	—	(13,924)	—	(13,924)
Net cash provided by (used in) investing activities	—	—	(43,423)	—	(43,423)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:					
Partial par value reduction	(12,981)	—	—	—	(12,981)
Proceeds from the exercise of stock options	5,293	—	—	—	5,293
Share repurchases	(82,571)	—	—	—	(82,571)
Net cash provided by (used in) financing activities	(90,259)	—	—	—	(90,259)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(16,321)	(3,025)	11,570	—	(7,776)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	19,997	11,324	650,558	—	681,879
CASH AND CASH EQUIVALENTS, END OF PERIOD	$3,676	$8,299	$662,128	$—	$674,103

Notes to Parent Company Condensed Financial Information

a) Dividends

Allied World Switzerland received cash dividends from its subsidiaries of $205,000 and $155,000 for the six months ended June 30, 2014 and 2013, 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 July 2, 2014, the Company paid a quarterly dividend of $0.225 per share to shareholders of record on June 24, 2014.

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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" means 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 2013 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") on February 18, 2014 (the "2013 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 write a diversified portfolio of property and casualty insurance and reinsurance internationally through our subsidiaries and branches based 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: U.S. insurance, international insurance and reinsurance. As of June 30, 2014, we had approximately $12.7 billion of total assets, $3.7 billion of total shareholders' equity and $4.5 billion of total capital, which includes shareholders' equity and senior notes.

During the three months ended June 30, 2014, we continued to grow our direct insurance business, in particular in the United States and Europe, as we entered new lines of business and added scale to our existing lines of business while our reinsurance operations had lower premiums mainly due to the timing of certain treaties renewing. During the quarter, we experienced positive rate improvements in certain lines of business, such as general casualty, primary casualty, healthcare and professional liability in our U.S. insurance segment, as well as positive rate changes in our international insurance segment for certain parts of our general casualty and healthcare lines of business. However also during the quarter, we did experience negative rate changes in our general property line of business in both our

U.S. insurance and international insurance segments, as well as negative rate changes in our professional liability line of business in the international insurance segment. We believe going forward in the near-term, there will be pricing pressure across most lines of business, in particular in our international insurance segment.

Our consolidated gross premiums written decreased by $4.8 million, or 0.6%, for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. Overall our combined ratio is higher by 7.5 percentage points, driven by increased property loss activity during the quarter and higher expenses primarily caused by increased headcount and employee stock-based compensation due primarily to an 11% increase in our stock price. As a result of the above factors, each of our operating segments reported lower underwriting income during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. Also during the quarter, we opened a branch office of Allied World Assurance Company, Ltd in Sydney, Australia to further expand our distribution network in the Asia Pacific region. The branch will initially offer general

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casualty, healthcare, professional liability, mergers and acquisitions and trade credit insurance products. In May 2014, we acquired the remaining interest in a claims administration services company we did not own and recorded goodwill of $9.4 million related to the transaction. The results of the claims administration services company are included in our U.S. insurance segment.

Our net income increased by $153.8 million to $151.9 million compared to the three months ended June 30, 2013. The increase was primarily due to recording net realized gains on our investments of $85.2 million during the three months ended June 30, 2014 compared to recording net realized losses of $115.2 million during the three months ended June 30, 2013 as a result of lower interest rates during the current quarter.

On May 1, 2014, the shareholders of the Company approved the following proposals:

- A cash dividend in the form of a distribution out of general legal reserve from capital contributions. The distribution amount will be paid to shareholders in quarterly installments of $0.225 per share. The first installment of the dividend was paid on July 2, 2014. We expect to distribute the remaining installments of the dividend in October 2014, January 2015 and April 2015.
- A new share repurchase program in order to repurchase up to $500.0 million of our common shares. This supersedes the 2012 share repurchase program and no further repurchases will be made under the 2012 share repurchase program.
- A three-for-one stock split for shareholders of record as of May 12, 2014. All historical share and per share amounts have been recast to reflect the stock split.

Financial Highlights

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	($ in millions except share, per share and percentage data)			
Gross premiums written	$760.4	$765.2	$1,661.8	$1,602.3
Net income (loss)	151.9	(1.9)	328.8	157.1
Operating income	76.1	103.5	205.9	187.7
Basic earnings (loss) per share:				
Net income (loss)	$1.55	$(0.02)	$3.33	$1.52
Operating income	$0.78	$1.00	$2.09	$1.82
Diluted earnings (loss) per share:				
Net income (loss)	$1.52	$(0.02)	$3.27	$1.48
Operating income	$0.76	$0.98	$2.05	$1.77
Weighted average common shares outstanding:				
Basic	97,809,639	103,267,659	98,672,618	103,552,656
Diluted	99,724,802	105,408,888	100,691,568	105,949,785
Basic book value per common share	$37.99	$32.90	$37.99	$32.90
Diluted book value per common share	$36.98	$32.06	$36.98	$32.06
Annualized return on average equity (ROAE), net income (loss)	16.6%	(0.2)%	18.3%	9.4%
Annualized ROAE, operating income	8.3%	12.2%	11.4%	11.2%

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	($ in millions, except share, per share and percentage data)			
Net income (loss)	$ 151.9	$ (1.9)	$ 328.8	$ 157.1
Add after tax effect of:				
Net realized investment (gains) losses	(76.4)	104.9	(123.6)	27.6
Foreign exchange loss	0.6	0.5	0.7	3.0
Operating income	$ 76.1	$ 103.5	$ 205.9	$ 187.7
Basic per share data:				
Net income (loss)	$ 1.55	$ (0.02)	$ 3.33	$ 1.52
Add after tax effect of:				
Net realized investment (gains) losses	(0.78)	1.02	(1.25)	0.27
Foreign exchange loss	0.01	—	0.01	0.03
Operating income	$ 0.78	$ 1.00	$ 2.09	$ 1.82
Diluted per share data:				
Net income (loss)	$ 1.52	$ (0.02) *	$ 3.27	$ 1.48
Add after tax effect of:				
Net realized investment (gains) losses	(0.77)	1.00	(1.23)	0.26
Foreign exchange loss	0.01	—	0.01	0.03
Operating income	$ 0.76	$ 0.98	$ 2.05	$ 1.77

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* Diluted weighted average common shares outstanding was only used in the calculation of diluted operating income per share. There were no common share equivalents included in calculating diluted earnings per share as there was a net loss and any additional shares would be anti-dilutive.

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Explanation of Responses:

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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 June 30, 2014	As of June 30, 2013
	($ in millions, except share and per share data)	
Price per share at period end	$38.02	$30.50
Total shareholders' equity	$3,682.8	$3,373.2
Basic common shares outstanding	96,929,091	102,527,493
Add:		
Unvested restricted stock units	516,546	251,190
Performance-based equity awards	619,428	812,559
Employee share purchase plan	29,293	31,866
Dilutive stock options outstanding	2,620,016	3,333,798
Weighted average exercise price per share	$16.24	$15.88
Deduct:		
Options bought back via treasury method	(1,119,123)	(1,735,830)
Common shares and common share equivalents outstanding	99,595,251	105,221,076
Basic book value per common share	$37.99	$32.90
Diluted book value per common share	$36.98	$32.06

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 June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
	($ in millions except percentage data)			
Opening shareholders' equity	$3,616.7	$3,432.0	$3,519.8	$3,326.3
Closing shareholders' equity	$3,682.8	$3,373.2	$3,682.8	$3,373.2
Average shareholders' equity	$3,649.7	$3,402.6	$3,601.3	$3,349.8
Net income (loss) available to shareholders	$151.9	$(1.9)	$328.8	$157.1
Annualized return on average shareholders' equity — net income (loss) available to shareholders	16.6%	(0.2)%	18.3%	9.4%
Operating income available to shareholders	$76.1	$103.5	$205.9	$187.7
Annualized return on average shareholders' equity — operating income available to shareholders	8.3%	12.2%	11.4%	11.2%

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Explanation of Responses:

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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. 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.

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. 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

Management measures 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 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

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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 2013 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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	($ in millions)			
Revenues				
Gross premiums written	$760.4	$765.2	$1,661.8	$1,602.3
Net premiums written	$553.9	$581.2	$1,325.5	$1,276.3
Net premiums earned	$537.3	$507.3	$1,067.5	$970.5
Net investment income	36.8	37.6	84.4	71.0
Net realized investment gains (losses)	85.2	(115.2)	139.4	(35.6)
	$659.3	$429.7	$1,291.3	$1,005.9
Expenses				
Net losses and loss expenses	$314.9	$275.2	$590.1	$530.3
Acquisition costs	74.3	64.6	142.0	121.3
General and administrative expenses	96.2	80.6	176.5	163.3
Amortization of intangible assets	0.6	0.6	1.3	1.2
Interest expense	14.6	14.2	29.1	28.3
Foreign exchange loss	0.6	0.4	0.7	3.0
	$501.2	$435.6	$939.7	$847.4
Income (loss) before income taxes	158.1	(5.9)	351.6	158.5
Income tax expense (benefit)	6.2	(4.0)	22.8	1.4
Net income (loss)	$151.9	$(1.9)	$328.8	$157.1
Ratios				
Loss and loss expense ratio	58.6%	54.2%	55.3%	54.6%
Acquisition cost ratio	13.8%	12.7%	13.3%	12.5%
General and administrative expense ratio	17.9%	15.9%	16.5%	16.8%
Expense ratio	31.7%	28.6%	29.8%	29.3%
Combined ratio	90.3%	82.8%	85.1%	83.9%

Comparison of Three Months Ended June 30, 2014 and 2013

Premiums

Gross premiums written decreased by $4.8 million, or 0.6%, for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The overall decrease in gross premiums written was primarily the result of the following:

- U.S. insurance: Gross premiums written increased by $34.1 million, or 11.1%. The increase in gross premiums written was primarily due to $11.4 million of new business growth from new lines of business and new insureds during the three months ended June 30, 2014 compared to the three months ended June 30, 2013, as well as premium rate increases across most lines of business. This was particularly evident in our general casualty and inland marine lines of business that had an overall increase in gross premiums written of $30.3 million. This growth was partially

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offset by the non-renewal of business, particularly in certain classes within our healthcare line of business, which did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions);

- International insurance: Gross premiums written increased by $11.9 million, or 6.2%. The increase was primarily due to continued growth from new initiatives and new lines of business. Our new aviation and marine cargo business contributed a combined $9.3 million of gross premiums written during the current quarter. Our professional liability line of business grew $4.9 million primarily on new business writings in our mergers and acquisitions class of business. This growth was partially offset by our general casualty line of business, which decreased by $3.7 million primarily due to the non-renewal of certain policies during the current quarter, which did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions). During the quarter, we opened a new branch office in Sydney, Australia to further expand our distribution network in the Asia Pacific region; and
- Reinsurance: Gross premiums written decreased by $50.8 million, or 19.1%. The decrease was primarily due to the timing of renewals that were not renewed in the current quarter but were previously bound during the quarter ended June 30, 2013 and lower premiums written in our property reinsurance lines of business. In our property reinsurance lines of business, we had lower premiums written during the current quarter compared to the same quarter last year of $12.4 million from our collateralized property catastrophe reinsurance program through Aeolus Re, Ltd. ("Aeolus Re").

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

	Three Months Ended June 30,		Dollar	Percentage
	2014	2013	Change	Change
	($ in millions)			
United States	$442.5	$440.2	$2.3	0.5 %
Bermuda	185.9	211.0	(25.1)	(11.9)%
Europe	78.0	60.3	17.7	29.4 %
Asia Pacific	50.9	53.8	(2.9)	(5.4)%
Canada	3.1	—	3.1	n/a
	$760.4	$765.2	$(4.8)	(0.6)%

Net premiums written decreased by $27.3 million, or 4.7%, for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The decrease in net premiums written was primarily due to higher ceded premiums written during the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The increase in ceded premiums written was due to reinsurance treaties in support of our less mature lines of business that we did not have in place during the three months ended June 30, 2013, and recognizing annual ceded premiums written at the inception of treaties that have contractual minimum premiums. Previously, we recognized ceded premiums written on these agreements based on the actual premiums ceded each quarter. This resulted in the acceleration of ceded premiums written of $41.9 million in our U.S. insurance segment this quarter, but had no impact on net premiums earned. These increases in ceded premiums were partially offset by lower ceded premiums on our property catastrophe reinsurance protection for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. 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 27.2% of gross premiums written for the three months ended June 30, 2014 compared to 24.0% for the same period in 2013. The increase was primarily due to the acceleration of ceded premiums in our U.S. insurance segment that increased the ratio by 5.5 percentage points.

Net premiums earned increased by $30.0 million, or 5.9%, for the three months ended June 30, 2014 compared to the three months ended June 30, 2013 as a result of higher premiums earned in each of our operating segments.

We evaluate our business by segment, distinguishing between U.S. insurance, international insurance and reinsurance. The following table illustrates the mix of our business on both a gross premiums written and net premiums earned basis.

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	Gross Premiums Written Three Months Ended June 30,				Net Premiums Earned Three Months Ended June 30,			
	2014		2013		2014		2013	
U.S. insurance	44.9	%	40.1	%	39.9	%	39.0	%
International insurance	26.9	%	25.2	%	16.6	%	17.1	%
Reinsurance	28.2	%	34.7	%	43.5	%	43.9	%
Total	100.0	%	100.0	%	100.0	%	100.0	%

Net Investment Income

Net investment income decreased by $0.8 million, or 2.1%, for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The decrease was primarily due to a net loss recorded for our equity method investments owned through Allied World Financial Services, Inc, partially offset by higher investment income from our fixed maturity investments. The annualized period book yield of the investment portfolio for the three months ended June 30, 2014 and 2013 was 1.7% and 1.8%, respectively.

We reported a net loss of $0.9 million from our other invested assets during the three months ended June 30, 2014 compared to earnings of $3.8 million during the three months ended June 30, 2013. The loss reported for the three months ended June 30, 2014 was due to a loss of $9.3 million recorded for an equity method investment due to impairment charges that it recorded. 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 current period earnings may not be indicative of the performance in future periods.

As of June 30, 2014, we held 10.6% of our total investments and cash equivalents in other invested assets compared to 9.9% as of June 30, 2013.

Investment management expenses of $4.7 million and $3.8 million were incurred during the three months ended June 30, 2014 and 2013, respectively. The increase of $0.9 million, or 23.7%, was primarily due to additional investment portfolio managers utilized in the current period as compared to prior period.

As of June 30, 2014, approximately 88.3% of our fixed income investments consisted of investment grade securities. As of June 30, 2014 and December 31, 2013, the average Standard & Poor’s credit rating of our fixed income portfolio was A+ and AA-, respectively.

Realized Investment Gains (Losses)

Net realized investment gains (losses) were comprised of the following:

	Three Months Ended June 30,		
	2014		2013
	($ in millions)		
Net realized gains on sale:			
Fixed maturity investments, trading	$10.3		$7.6
Equity securities, trading	8.2		6.4
Other invested assets: hedge funds and private equity, trading	33.2		9.1
Total net realized gains on sale	51.7		23.1
Net realized and unrealized (losses) gains on derivatives	(13.7	)	8.5
Mark-to-market gains (losses):			

Fixed maturity investments, trading	36.4	(115.1)
Equity securities, trading	21.3	(34.3)
Other invested assets: hedge funds and private equity, trading	(10.5)	2.6
Total mark-to-market gains (losses)	47.2	(146.8)
Net realized investment gains (losses)	$85.2	$(115.2)

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The total return of our investment portfolio was 1.4% and (0.9)% for the three months ended June 30, 2014 and 2013, respectively. The increase in total return was primarily due to lower interest rates that caused mark-to-market gains on our fixed maturity investments and higher stock price appreciation of our equity securities during the three months ended June 30, 2014 compared to three months ended June 30, 2013. The realized and unrealized losses on derivatives for the three months ended June 30, 2014 were the result of selling interest rate future and swap contracts to reduce the duration of the investment portfolio. Given the decrease in interest rates during the quarter, we recorded a loss related to these interest rate future and swap contracts.

Net Losses and Loss Expenses

Net losses and loss expenses increased by $39.7 million, or 14.4%, for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The following is a breakdown of the loss and loss expense ratio for the three months ended June 30, 2014 and 2013:

	Three Months Ended June 30, 2014		Three Months Ended June 30, 2013		Dollar Change	Loss Ratio Percentage Point Change
	Amount	% of NPE (1)	Amount	% of NPE (1)		
			($ in millions)			
Non-catastrophe	$360.0	67.0 %	$323.6	63.7 %	$36.4	3.3
Property catastrophe	—	—	—	—	—	—
Current period	360.0	67.0	323.6	63.7	36.4	3.3
Prior period	(45.1)	(8.4)	(48.4)	(9.5)	3.3	1.1
Net losses and loss expenses	$314.9	58.6 %	$275.2	54.2 %	$39.7	4.4

(1) “NPE” means net premiums earned.

Current year non-catastrophe losses and loss expenses

The increase in the current year non-catastrophe losses and loss expenses and related ratio was primarily due to the overall growth of our operations and higher reported property losses in our U.S. insurance and reinsurance segments, primarily due to several storm events in the United States, an earthquake in Chile, an oil spill in the Gulf of Mexico and a fire at a Russian oil refinery, partially offset by lower reported property losses in our international insurance segment. The net increase in reported property loss activity during the three months ended June 30, 2014 compared to the three months ended June 30, 2013 increased the current year non-catastrophe loss and loss adjustment expense ratio by 2.5 percentage points.

Current year property catastrophe losses and loss expenses

During the three months ended June 30, 2014 and June 30, 2013, we did not incur any property catastrophe losses.

Prior year losses and loss expenses

We recorded net favorable reserve development related to prior years of $45.1 million during the three months ended June 30, 2014 compared to net favorable reserve development of $48.4 million for the three months ended June 30, 2013, as shown in the tables below.

(Favorable) and Unfavorable Loss Reserve Development by Loss Year

	For the Three Months Ended June 30, 2014										
	2004 and Prior	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
	($ in millions)										
U.S. insurance	$(1.5)	$(0.5)	$—	$(0.6)	$(4.0)	$(8.7)	$1.1	$8.2	$(0.6)	$7.7	$1.1
International insurance	3.9	(1.5)	1.9	(10.6)	15.1	(14.5)	(11.9)	—	2.2	(4.6)	(20.0)
Reinsurance	0.7	(1.1)	(0.7)	(0.3)	0.3	(0.6)	0.8	(5.3)	2.4	(22.4)	(26.2)
	$3.1	$(3.1)	$1.2	$(11.5)	$11.4	$(23.8)	$(10.0)	$2.9	$4.0	$(19.3)	$(45.1)

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For the three months ended June 30, 2014, the net unfavorable prior year reserve development in the U.S. insurance segment primarily related to the healthcare line of business due to adverse development on several claims above our previous expectations in the medical malpractice class of business. The U.S. insurance segment also had adverse development on reported claims in our lawyers errors and omissions ("E&O") and primary casualty classes of business. The unfavorable prior year reserve development in the international insurance segment related to a single claim from the 2008 loss year in our general casualty line of business that is estimated to reach our full limit. The net favorable prior year reserve development in our reinsurance segment for the 2013 loss year was primarily due to lower than expected property loss activity.

The following table shows the net favorable reserve development by loss year for each of our segments for the three months ended June 30, 2013.

(Favorable) and Unfavorable Loss Reserve Development by Loss Year
For the Three Months Ended June 30, 2013

	2003 and Prior	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
	($ in millions)										
U.S. insurance	$—	$(0.9)	$(1.4)	$0.4	$(6.1)	$(10.5)	$(0.3)	$(7.2)	$13.2	$9.9	$(2.9)
International insurance	6.4	(5.6)	2.9	(4.9)	(7.5)	(2.8)	(4.2)	(3.0)	(2.1)	(4.9)	(25.7)
Reinsurance	(0.3)	(1.3)	(1.0)	1.3	—	(3.9)	1.4	0.1	2.6	(18.7)	(19.8)
	$6.1	$(7.8)	$0.5	$(3.2)	$(13.6)	$(17.2)	$(3.1)	$(10.1)	$13.7	$(13.7)	$(48.4)

For the three months ended June 30, 2013, the unfavorable reserve development for the 2011 and 2012 loss years for our U.S. insurance segment was due to higher than expected loss emergence, primarily in our private/not for profit directors’ and officers’ (“D&O”) and healthcare lines of business. The healthcare emergence was largely driven by one large claim and loss emergence in our medical malpractice class of business due to higher than expected loss frequency. The emergence in our private/not for profit D&O class of business was due to higher than expected loss frequency.

The favorable reserve development for the 2012 loss year for our reinsurance segment was due to lower than expected reported losses in our property reinsurance line of business.

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

	Three Months Ended June 30,		Dollar
	2014	2013	Change
	($ in millions)		
Net losses paid	$258.4	$262.9	$(4.5)
Net change in reported case reserves	48.3	(18.2)	66.5
Net change in IBNR	8.2	30.5	(22.3)
Net losses and loss expenses	$314.9	$275.2	$39.7

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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 June 30,	
	2014	2013
	($ in millions)	
Net reserves for losses and loss expenses, April 1	$4,576.3	$4,509.7
Incurred related to:		
Current period non-catastrophe	360.0	323.6
Prior period	(45.1)	(48.4)
Total incurred	314.9	275.2
Paid related to:		
Current period non-catastrophe	23.1	21.0
Prior period	235.3	241.9
Total paid	258.4	262.9
Foreign exchange revaluation	1.2	(4.7)
Net reserve for losses and loss expenses, June 30	4,634.0	4,517.3
Losses and loss expenses recoverable	1,301.7	1,179.6
Reserve for losses and loss expenses, June 30	$5,935.7	$5,696.9

Acquisition Costs

Acquisition costs increased by $9.7 million, or 15.0%, for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The increase in acquisition costs was primarily due to the growth in premiums earned and higher acquisition costs in our reinsurance segment. Acquisition costs as a percentage of net premiums earned were 13.8% for the three months ended June 30, 2014 compared to 12.7% for the same period in 2013. The higher acquisition cost ratio was primarily driven from our reinsurance segment.

General and Administrative Expenses

General and administrative expenses increased by $15.6 million, or 19.4%, for the three months ended June 30, 2014 compared to the same period in 2013. Our general and administrative expense ratio was 17.9% and 15.9% for the three months ended June 30, 2014 and 2013, respectively. The increase in general and administrative expenses was primarily due to higher stock-based compensation and higher salary related costs due to higher headcount. We have granted cash equivalent restricted stock units and performance-based equity awards to certain key employees, and we measure the value of each of those awards 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 11% for the three months ended June 30, 2014 compared to a 1% decrease for the same period in 2013.

Amortization of Intangible Assets

The amortization of intangible assets was unchanged for the three months ended June 30, 2014 compared to the three months ended June 30, 2013.

Interest Expense

Interest expense increased by $0.4 million, or 2.8%, for the three months ended June 30, 2014 compared to the three months ended June 30, 2013.

Net Income

Net income for the three months ended June 30, 2014 was $151.9 million compared to a net loss of $1.9 million for the three months ended June 30, 2013. The $153.8 million increase was primarily the result of recording net realized gains on our investments of $85.2 million during the three months ended June 30, 2014 compared to net realized losses of $115.2 million

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during the three months ended June 30, 2013. Income tax expense for the three months ended June 30, 2014 increased by $10.2 million compared to the three months ended June 30, 2013. The increase in income tax expense was primarily due to higher taxable income in our U.S. operations.

Comparison of Six Months Ended June 30, 2014 and 2013

Premiums

Gross premiums written increased by $59.5 million, or 3.7%, for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The overall increase in gross premiums written was primarily the result of the following:

- U.S. insurance: Gross premiums written increased by $48.1 million, or 8.5%. The increase in gross premiums written was primarily due to $21.7 million of new business growth from new lines of business and new insureds during the six months ended June 30, 2014 compared to the six months ended June 30, 2013, as well as premium rate increases across most lines of business. This was particularly evident in our general casualty, programs, inland marine and environmental lines of business that had an overall increase in gross premiums written of $58.8 million. This growth was partially offset by the non-renewal of business, particularly in certain classes within our healthcare line of business, which did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions);
- International insurance: Gross premiums written increased by $17.7 million, or 5.5%. The increase was primarily due to continued growth from new initiatives and new lines of business. Our new aviation and marine cargo business contributed $13.6 million of gross premiums written during the current period. The professional liability line of business grew $9.4 million on new business writings in European E&O and mergers and acquisitions classes of business. This growth was partially offset by the general casualty line of business, which decreased by $7.6 million compared to the prior period, due to non-recurring business written in 2013 and the non-renewal of certain policies during the current period, which did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions); and
- Reinsurance: Gross premiums written decreased by $6.3 million, or 0.9%. The decrease was driven primarily by the timing of a renewal that was not renewed in the current period but was previously bound during the six months ended June 30, 2013 partially offset by new business and increased renewals across several major lines of business. In our property reinsurance lines of business, we had increased premiums of approximately $3.6 million from our collateralized property catastrophe reinsurance program through Aeolus Re. In our specialty lines of business, our crop reinsurance line of business increased gross premiums written by $8.5 million primarily due to increases on renewals and new business. We also experienced non-renewals of certain treaties, particularly in our casualty reinsurance line of business, either due to poor terms and conditions or the cedents not renewing their reinsurance or finding other reinsurance alternatives, and net downward premium adjustments on inforce treaties.

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

	Six Months Ended June 30,		Dollar		Percentage	
	2014	2013	Change		Change	
	($ in millions)					
United States	$963.3	$918.6	$44.7		4.9	%
Bermuda	415.5	439.7	(24.2	)	(5.5	)%
Europe	181.3	146.8	34.5		23.5	%
Asia Pacific	97.7	97.2	0.5		0.5	%

Canada	3.9	—	3.9	n/a	
	$1,661.8	$1,602.3	$59.5	3.7	%

Net premiums written increased by $49.2 million, or 3.9%, for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The increase in net premiums written was due to the increase in gross premiums written partially offset by an increase in ceded premiums written. The increase in ceded premiums written was due to new reinsurance treaties in support of our lines of business that we did not have in place during the six months ended June 30, 2013, recognizing annual ceded premiums written at the inception of treaties that have contractual minimum premiums partially offset by lower ceded premiums related to our property catastrophe reinsurance protection during the six months ended June 30, 2014 compared to

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the six months ended June 30, 2013. 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 20.2% of gross premiums written for the six months ended June 30, 2014 compared to 20.3% for the same period in 2013. The above factors contributed to the increase in ceded premiums written but overall did not materially impact the ceded premium percentage during the six months ended June 30, 2014 compared to the six months ended June 30, 2013.

Net premiums earned increased by $97.0 million, or 10.0%, for the six months ended June 30, 2014 compared to the six months ended June 30, 2013 as a result of higher premiums earned in each of our operating segments.

The following table illustrates the mix of our business on both a gross premiums written and net premiums earned basis.

	Gross Premiums Written Six Months Ended June 30,		Net Premiums Earned Six Months Ended June 30,	
	2014	2013	2014	2013
U.S. insurance	36.8 %	35.2 %	40.0 %	39.8 %
International insurance	20.4 %	20.0 %	16.6 %	17.6 %
Reinsurance	42.8 %	44.8 %	43.4 %	42.6 %
Total	100.0 %	100.0 %	100.0 %	100.0 %

Net Investment Income

Net investment income increased by $13.4 million, or 18.9%, for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The increase was due to higher income across most asset classes. The annualized period book yield of the investment portfolio for the six months ended June 30, 2014 and 2013 was 2.0% and 1.7%, respectively.

Investment management expenses of $8.5 million and $8.1 million were incurred during the six months ended June 30, 2014 and 2013, respectively. The increase of $0.4 million, or 4.9%, was primarily due to additional investment portfolio managers utilized in the current period as compared to prior period.

Realized Investment Gains (Losses)

Net realized investment gains (losses) were comprised of the following:

	Six Months Ended June 30,	
	2014	2013
	($ in millions)	
Net realized gains on sale:		
Fixed maturity investments, trading	$17.7	$29.5
Equity securities, trading	44.4	16.2
Other invested assets: hedge funds and private equity, trading	39.6	14.7
Total net realized gains on sale	101.7	60.4
Net realized and unrealized (losses) gains on derivatives	(26.6)	7.6
Mark-to-market gains (losses):		
Fixed maturity investments, trading	58.9	(131.6)
Equity securities, trading	(0.3)	(1.4)
Other invested assets: hedge funds and private equity, trading	5.7	29.4
Total mark-to-market gains (losses)	64.3	(103.6)

Net realized investment gains (losses)	$139.4	$(35.6)

The total return of our investment portfolio was 2.6% and 0.4% for the six months ended June 30, 2014 and 2013, respectively. The increase in total return was primarily due to lower interest rates that caused mark-to-market gains on our fixed maturity investments during the six months ended June 30, 2014 compared to higher interest rates and tightening credit spreads which caused mark-to-market losses during the six months ended June 30, 2013. The realized and unrealized losses on

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derivatives for the six months ended June 30, 2014 were the result of selling interest rate future and swap contracts to reduce the duration of the investment portfolio. Given the decrease in interest rates during the year, we recorded a loss related to these interest rate future and swap contracts.

Net Losses and Loss Expenses

Net losses and loss expenses increased by $59.8 million, or 11.3%, for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The following is a breakdown of the loss and loss expense ratio for the six months ended June 30, 2014 and 2013:

	Six Months Ended June 30, 2014		Six Months Ended June 30, 2013		Dollar Change	Loss Ratio Percentage Point Change
	Amount	% of NPE (1)	Amount	% of NPE (1)		
			($ in millions)			
Non-catastrophe	$684.1	64.1 %	$622.8	64.1 %	$61.3	—
Property catastrophe	—	—	—	—	—	—
Current period	684.1	64.1	622.8	64.1	61.3	—
Prior period	(94.0)	(8.8)	(92.5)	(9.5)	(1.5)	0.7
Net losses and loss expenses	$590.1	55.3 %	$530.3	54.6 %	$59.8	0.7

(1) "NPE" means net premiums earned.

Current year non-catastrophe losses and loss expenses

The increase in the current year non-catastrophe losses and loss expenses was primarily due to the overall growth of our operations.

Current year property catastrophe losses and loss expenses

During the six months ended June 30, 2014 and June 30, 2013, we did not incur any property catastrophe losses.

Prior year losses and loss expenses

We recorded net favorable reserve development related to prior years of $94.0 million during the six months ended June 30, 2014 compared to net favorable reserve development of $92.5 million for the six months ended June 30, 2013, as shown in the tables below.

(Favorable) and Unfavorable Loss Reserve Development by Loss Year
Six Months Ended June 30, 2014

	2004 and Prior	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
	($ in millions)										
U.S. insurance	$(4.7)	$(0.5)	$—	$(0.4)	$(4.5)	$(9.0)	$1.0	$12.7	$(0.5)	$7.7	$1.8
International insurance	7.8	(3.8)	(0.7)	(28.4)	9.3	(20.3)	(16.3)	(5.0)	0.8	7.2	(49.4)
Reinsurance	(0.6)	(0.3)	(2.1)	(2.4)	(1.4)	(0.4)	2.3	(5.1)	0.3	(36.7)	(46.4)
	$2.5	$(4.6)	$(2.8)	$(31.2)	$3.4	$(29.7)	$(13.0)	$2.6	$0.6	$(21.8)	$(94.0)

For the six months ended June 30, 2014, the net unfavorable prior year reserve development in the U.S. insurance segment for the 2011 loss year was in our healthcare line of business and was due to adverse development on several claims above our previous expectations in the managed care E&O class of business and higher than expected loss frequency in the medical malpractice class of business. The favorable prior year reserve development in the international insurance segment for the 2007 loss year was due to favorable reserve development on an individual professional liability claim, the net favorable development for the 2009 and 2010 loss years was due to actual loss emergence being lower than anticipated across several lines of business, and the unfavorable reserve development for the 2013 loss year was due to a single claim in our healthcare line of business. The net favorable prior year reserve development in our reinsurance segment for the 2013 loss year was primarily due to benign property loss activity, and therefore reported losses were less than our expectations.

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The following table shows the net favorable reserve development by loss year for each of our segments for the six months ended June 30, 2013.

	(Favorable) and Unfavorable Loss Reserve Development by Loss Year For the Six Months Ended June 30, 2013										
	2003 and Prior	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
	($ in millions)										
U.S. insurance	$(0.1)	$(2.1)	$(3.5)	$(1.1)	$(13.0)	$(14.2)	$(3.0)	$(7.3)	$17.7	$34.2	$7.6
International insurance	5.9	(2.9)	(4.3)	(10.9)	(10.3)	(9.9)	(0.6)	(5.5)	(9.7)	(7.2)	(55.4)
Reinsurance	0.2	(1.4)	(3.1)	1.1	(2.2)	(6.9)	0.4	(2.1)	(2.9)	(27.8)	(44.7)
	$6.0	$(6.4)	$(10.9)	$(10.9)	$(25.5)	$(31.0)	$(3.2)	$(14.9)	$5.1	$(0.8)	$(92.5)

For the six months ended June 30, 2013, the unfavorable reserve development for the 2011 and 2012 loss years for our U.S. insurance segment was due to higher than expected loss emergence, primarily in our private/not for profit D&O, healthcare and E&O lines of business. The healthcare emergence was largely driven by three large claims, each in excess of $3 million. The emergence in the E&O and private/not for profit D&O is due to higher than expected loss frequency.

The favorable reserve development for the 2012 loss year for our reinsurance segment was due to lower than expected reported losses in our property reinsurance line of business.

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

	Six Months Ended June 30,		Dollar
	2014	2013	Change
	($ in millions)		
Net losses paid	$490.7	$507.5	$(16.8)
Net change in reported case reserves	(2.9)	(9.2)	6.3
Net change in IBNR	102.3	32.0	70.3
Net losses and loss expenses	$590.1	$530.3	$59.8

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.

	Six Months Ended June 30,	
	2014	2013
	($ in millions)	
Net reserves for losses and loss expenses, January 1	$4,532.0	$4,504.4
Incurred related to:		
Current period non-catastrophe	684.1	622.8
Prior period	(94.0)	(92.5)
Total incurred	590.1	530.3
Paid related to:		
Current period non-catastrophe	26.8	24.4
Prior period	463.9	483.0
Total paid	490.7	507.4

Foreign exchange revaluation	2.6	(9.9)
Net reserve for losses and loss expenses, June 30	4,634.0	4,517.4
Losses and loss expenses recoverable	1,301.7	1,179.6
Reserve for losses and loss expenses, June 30	$5,935.7	$5,697.0

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Acquisition Costs

Acquisition costs increased by $20.7 million, or 17.1%, for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The increase in acquisition costs was due to the growth in premiums and higher acquisition costs in our reinsurance segment. Acquisition costs as a percentage of net premiums earned were 13.3% for the six months ended June 30, 2014 compared to 12.5% for the same period in 2013. The higher acquisition cost ratio was driven from our reinsurance segment.

General and Administrative Expenses

General and administrative expenses increased by $13.2 million, or 8.1%, for the six months ended June 30, 2014 compared to the same period in 2013. Our general and administrative expense ratio was 16.5% and 16.8% for the six months ended June 30, 2014 and 2013, respectively. The increase in general and administrative expenses was primarily due to higher salary related costs due to higher headcount as our average headcount increased by 13% partially offset by lower stock-based compensation due to changes in our share price. Our share price increased 1% for the six months ended June 30, 2014 compared to a 16% increase for the same period in 2013.

Amortization of Intangible Assets

The amortization of intangible assets was virtually unchanged for the six months ended June 30, 2014 compared to the six months ended June 30, 2013.

Interest Expense

Interest expense increased by $0.8 million, or 2.8%, for the six months ended June 30, 2014 compared to the six months ended June 30, 2013.

Net Income

Net income for the six months ended June 30, 2014 was $328.8 million compared to net income of $157.1 million for the six months ended June 30, 2013. The $171.7 million increase was primarily the result of recording net realized gains on our investments of $139.4 million during the six months ended June 30, 2014 compared to net realized losses of $35.6 million during the six months ended June 30, 2013. Income tax expense for the six months ended June 30, 2014 increased by $21.4 million compared to the six months ended June 30, 2013. The increase in income tax expense was primarily due to higher taxable income in our U.S. operations.

Underwriting Results by Operating Segments

Our company is organized into three operating segments:

U.S. Insurance Segment. The U.S. insurance segment includes our direct specialty insurance operations in the United States and Canada, as well as our claims administration services operations. This segment provides both direct property and specialty casualty insurance primarily to non-Fortune 1000 North American domiciled accounts, as well as third-party claims administration services.

International Insurance Segment. The international insurance segment includes our direct insurance operations in Bermuda, Europe and Asia Pacific, which includes offices in Australia, Singapore and Hong Kong. This segment provides both direct property and casualty insurance primarily to Fortune 1000 North American domiciled accounts from our Bermuda office and direct property and specialty casualty to our non-North American domiciled accounts from our European and Asia Pacific offices.

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.

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U.S. Insurance Segment

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	($ in millions)			
Revenues				
Gross premiums written	$341.4	$307.3	$611.4	$563.3
Net premiums written	222.0	221.4	424.7	413.7
Net premiums earned	214.6	197.5	426.7	385.9
Expenses				
Net losses and loss expenses	$145.5	$124.4	$287.5	$257.7
Acquisition costs	29.7	27.3	57.2	50.4
General and administrative expenses	46.6	38.3	84.0	77.9
Underwriting (loss) income	$(7.2)	$7.5	$(2.0)	$(0.1)
Ratios				
Loss and loss expense ratio	67.8%	63.0%	67.4%	66.8%
Acquisition cost ratio	13.8%	13.8%	13.4%	13.1%
General and administrative expense ratio	21.7%	19.4%	19.7%	20.2%
Expense ratio	35.5%	33.2%	33.1%	33.3%
Combined ratio	103.3%	96.2%	100.5%	100.1%

Comparison of Three Months Ended June 30, 2014 and 2013

Premiums. Gross premiums written increased by $34.1 million, or 11.1%, for the three months ended June 30, 2014 compared to the same period in 2013. The increase in gross premiums written was primarily due to $11.4 million of new business growth from new lines of business and new insureds during the three months ended June 30, 2014 compared to the three months ended June 30, 2013, as well as premium rate increases across most lines of business. This was particularly evident in our general casualty and inland marine lines of business that had an overall increase in gross premiums written of $30.3 million. This growth was partially offset by the non-renewal of business, particularly in certain classes within our healthcare line of business, which did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions).

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

	Three Months Ended June 30,		Dollar	Percentage
	2014	2013	Change	Change
		($ in millions)		
General casualty	$119.7	$97.4	$22.3	22.9%
Professional liability	62.0	64.4	(2.4)	(3.7)%
Healthcare	37.7	46.5	(8.8)	(18.9)%
General property	34.8	35.6	(0.8)	(2.2)%
Programs	34.2	33.7	0.5	1.5%
Inland marine	20.7	12.7	8.0	63.0%
Environmental	11.4	9.7	1.7	17.5%
Other*	20.9	7.3	13.6	186.3%

	$341.4	$307.3	$34.1	11.1	%

*Includes our primary construction, mergers and acquisitions and surety lines of business.

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Net premiums written increased by $0.6 million, or 0.3%, for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The increase was primarily due to higher gross premiums written and lower ceded premiums related to our property catastrophe reinsurance protection, partially offset by $41.9 million of additional ceded premiums written due to recognizing annual ceded premiums written at the inception of several reinsurance treaties rather than ratably over the contract period as these reinsurance contracts had contractual minimum premiums. This resulted in the acceleration of ceded premiums written but had no impact on net premiums earned. We ceded 35.0% of gross premiums written for the three months ended June 30, 2014 compared to 28.0% for the three months ended June 30, 2013.

Net premiums earned increased by $17.2 million, or 8.7%, for the three months ended June 30, 2014 compared to the same period in 2013. The increase was due to the continued growth of our U.S. insurance operations during 2013 and into 2014.

Net losses and loss expenses. Net losses and loss expenses increased by $21.1 million, or 17.0%, for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The following is a breakdown of the loss and loss expense ratio for the three months ended June 30, 2014 and 2013:

	Three Months Ended June 30, 2014		Three Months Ended June 30, 2013		Dollar Change	Loss Ratio Percentage Point Change
	Amount	% of NPE	Amount	% of NPE		
			($ in millions)			
Non-catastrophe	$144.4	67.3 %	$127.3	64.5 %	$17.1	2.8 Pts
Property catastrophe	—	—	—	—	—	—
Current period	144.4	67.3	127.3	64.5	17.1	2.8
Prior period	1.1	0.5	(2.9)	(1.5)	4.0	2.0
Net losses and loss expenses	$145.5	67.8 %	$124.4	63.0 %	$21.1	4.8 Pts

Current year non-catastrophe losses and loss expenses

The increase in the current year non-catastrophe losses and loss expenses and the related ratio was primarily due to growth of the business and higher non-catastrophe property losses in the current period compared to the same period last year.

Current year property catastrophe losses and loss expenses

During the three months ended June 30, 2014 and June 30, 2013, we did not incur any property catastrophe losses.

Prior year losses and loss expenses

Overall, our U.S. insurance segment recorded net unfavorable reserve development of $1.1 million during the three months ended June 30, 2014 compared to net favorable reserve development of $2.9 million for the three months ended June 30, 2013, as shown in the tables below.

(Favorable) and Unfavorable Loss Reserve Development by Loss Year
For the Three Months Ended June 30, 2014

2004 and Prior	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total

($ in millions)											
General casualty	$(0.1)	$—	$—	$(0.2)	$(2.5)	$—	$1.4	$—	$(1.9)	$4.2	$0.9
Programs	—	—	—	(0.1)	(0.3)	(0.3)	0.3	(0.8)	(0.6)	(1.4)	(3.2)
General property	—	—	—	—	—	—	0.5	(1.6)	(0.3)	3.2	1.8
Healthcare	(1.4)	(0.5)	—	—	(0.8)	1.1	0.1	9.9	2.0	2.1	12.5
Professional liability	—	—	—	(0.3)	(0.4)	(9.5)	(1.0)	1.7	1.6	—	(7.9)
Inland Marine	—	—	—	—	—	—	—	—	(0.2)	(0.4)	(0.6)
Environmental	—	—	—	—	—	—	(0.2)	(1.0)	(1.2)	—	(2.4)
	$(1.5)	$(0.5)	$—	$(0.6)	$(4.0)	$(8.7)	$1.1	$8.2	$(0.6)	$7.7	$1.1

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For the three months ended June 30, 2014, the net unfavorable prior year reserve development in our healthcare lines of business for the 2011 through 2013 loss years was primarily due to adverse development on several claims above our previous expectations in the medical malpractice class of business. We also experienced adverse development on reported claims in our lawyers E&O class of business for the 2011 and 2012 loss years and our primary casualty class of business in the 2013 loss year.

(Favorable) and Unfavorable Loss Reserve Development by Loss Year
For the Three Months Ended June 30, 2013

	2003 and Prior	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
	($ in millions)										
General casualty	$—	$(0.3)	$(0.2)	$—	$(1.2)	$(1.4)	$0.3	$—	$0.8	$0.5	$(1.5)
Programs	—	—	—	(1.4)	(1.7)	0.1	(0.1)	(1.8)	(0.2)	1.4	(3.7)
General property	—	0.1	—	0.3	(0.2)	(1.3)	0.1	(2.5)	1.6	—	(1.9)
Healthcare	—	(0.7)	(0.7)	(1.7)	(1.5)	(3.6)	(1.3)	(1.0)	10.1	2.2	1.8
Professional liability	—	—	(0.5)	3.2	(1.5)	(4.3)	0.7	(1.8)	1.3	5.0	2.1
Other	—	—	—	—	—	—	—	(0.1)	(0.4)	0.8	0.3
	$—	$(0.9)	$(1.4)	$0.4	$(6.1)	$(10.5)	$(0.3)	$(7.2)	$13.2	$9.9	$(2.9)

For the three months ended June 30, 2013, the unfavorable reserve development for the 2011 and 2012 loss years was due to higher than expected loss emergence, primarily in our private/not for profit D&O and healthcare lines of business. The healthcare emergence was largely driven by one large claim and loss emergence in our medical malpractice class of business. The emergence in the private/not for profit D&O is due to higher than expected loss frequency.

Acquisition costs. Acquisition costs increased by $2.4 million, or 8.8%, for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The increase was primarily driven by the growth in net premiums earned. The acquisition cost ratio was 13.8% for both the three months ended June 30, 2014 and 2013.

General and administrative expenses. General and administrative expenses increased by $8.3 million, or 21.7%, for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The increase was primarily due to higher stock-based compensation expense and higher salary related costs as we continue to grow our U.S. insurance operations. The general and administrative expense ratio increased to 21.7% for the three months ended June 30, 2014 from 19.4% for the same period in 2013, reflecting higher expenses partially offset by higher net premiums earned.

Comparison of Six Months Ended June 30, 2014 and 2013

Premiums. Gross premiums written increased by $48.1 million, or 8.5%, for the six months ended June 30, 2014 compared to the same period in 2013. The increase in gross premiums written was primarily due to $21.7 million of new business growth from new lines of business and new insureds during the six months ended June 30, 2014 compared to the six months ended June 30, 2013, as well as premium rate increases across most lines of business. This was particularly evident in our general casualty, programs, inland marine and environmental lines of business that had an overall increase in gross premiums written of $58.8 million. This growth was partially offset by the non-renewal of business, particularly in certain classes within our healthcare line of business, which did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions).

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

	Six Months Ended June 30, 2014	2013 ($ in millions)	Dollar Change	Percentage Change
General casualty	$199.0	$164.3	$34.7	21.1 %
Professional liability	124.2	127.5	(3.3)	(2.6)%
Programs	73.2	66.6	6.6	9.9 %
Healthcare	72.1	100.0	(27.9)	(27.9)%
General property	53.7	55.3	(1.6)	(2.9)%
Inland marine	32.8	20.7	12.1	58.5 %
Environmental	21.7	16.3	5.4	33.1 %
Other*	34.6	12.6	22.0	174.6 %
	$611.4	$563.3	$48.1	8.5 %

*Includes our primary construction, mergers and acquisitions and surety lines of business.

Net premiums written increased by $11.0 million, or 2.7%, for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The increase in net premiums written was due to higher gross premiums written and lower ceded premiums related to our property catastrophe reinsurance protection partially offset by higher premiums ceded due to recognizing annual ceded premiums written at the inception of the treaty rather than ratably over the contract period for those reinsurance contracts where there is a contractual minimum premium. We ceded 30.5% of gross premiums written for the six months ended June 30, 2014 compared to 26.6% during during the same period in 2013.

Net premiums earned increased by $40.8 million, or 10.6%, for the six months ended June 30, 2014 compared to the same period in 2013. The increase was due to the continued growth of our U.S. insurance operations during 2013 and into 2014.

Net losses and loss expenses. Net losses and loss expenses increased by $29.8 million, or 11.6%, for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The following is a breakdown of the loss and loss expense ratio for the six months ended June 30, 2014 and 2013:

	Six Months Ended June 30, 2014		Six Months Ended June 30, 2013		Dollar Change	Loss Ratio Percentage Point Change
	Amount	% of NPE	Amount ($ in millions)	% of NPE		
Non-catastrophe	$285.7	67.0 %	$250.1	64.8 %	$35.6	2.2 Pts
Property catastrophe	—	—	—	—	—	—
Current period	285.7	67.0	250.1	64.8	35.6	2.2
Prior period	1.8	0.4	7.6	2.0	(5.8)	(1.6)
Net losses and loss expenses	$287.5	67.4 %	$257.7	66.8 %	$29.8	0.6 Pts

Current year non-catastrophe losses and loss expenses

The increase in the current year non-catastrophe losses and loss expenses and the related ratio was primarily due to growth and mix of the business, higher non-catastrophe property losses in the current period compared to the same period last year, and increased loss adjustment expenses across several lines of business.

Current year property catastrophe losses and loss expenses

During the six months ended June 30, 2014 and June 30, 2013, we did not incur any property catastrophe losses.

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Prior year losses and loss expenses

Overall, our U.S. insurance segment recorded net unfavorable reserve development of $1.8 million during the three months ended June 30, 2014 compared to net unfavorable reserve development of $7.6 million for the three months ended June 30, 2013, as shown in the tables below.

(Favorable) and Unfavorable Loss Reserve Development by Loss Year
For the Six Months Ended June 30, 2014

	2004 and Prior	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
	($ in millions)										
General casualty	$(3.0)	$—	$—	$(0.7)	$(4.8)	$0.3	$1.3	$2.0	$(1.9)	$4.2	$(2.6)
Programs	—	—	—	0.9	1.3	(3.3)	0.3	(1.8)	(0.8)	(1.4)	(4.8)
General property	—	—	—	—	—	—	0.5	(1.6)	(0.3)	3.2	1.8
Healthcare	(1.7)	(0.5)	—	(0.3)	(0.6)	3.1	0.1	14.2	3.8	2.1	20.2
Professional liability	—	—	—	(0.3)	(0.4)	(9.1)	(1.0)	1.2	0.4	—	(9.2)
Inland Marine	—	—	—	—	—	—	—	(0.3)	(0.5)	(0.4)	(1.2)
Environmental	—	—	—	—	—	—	(0.2)	(1.0)	(1.2)	—	(2.4)
	$(4.7)	$(0.5)	$—	$(0.4)	$(4.5)	$(9.0)	$1.0	$12.7	$(0.5)	$7.7	$1.8

For the six months ended June 30, 2014, the net unfavorable prior year reserve development in the healthcare line of business for the 2011 through 2013 loss years was due to adverse development on several claims above our previous expectations in the managed care E&O class of business and higher than expected loss frequency and severity in the medical malpractice class of business. We also experienced adverse development on reported claims in our lawyers E&O class of business for the 2011 and 2012 loss years and the primary casualty class of business in the 2013 loss year.

(Favorable) and Unfavorable Loss Reserve Development by Loss Year
For the Six Months Ended June 30, 2013

	2003 and Prior	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
	($ in millions)										
General casualty	$—	$(0.7)	$(0.5)	$—	$(4.5)	$(3.1)	$0.1	$—	$2.0	$0.5	$(6.2)
Programs	—	—	—	(1.4)	(3.3)	0.2	(0.7)	(2.7)	(0.6)	2.8	(5.7)
General property	—	0.1	—	0.3	(0.2)	(1.3)	(1.3)	(0.2)	1.5	2.0	0.9
Healthcare	(0.1)	(1.0)	(1.6)	(2.7)	(2.3)	(6.2)	(1.2)	(1.6)	13.1	9.0	5.4
Professional liability	—	(0.5)	(1.4)	2.7	(2.7)	(3.8)	0.1	(2.7)	2.1	18.3	12.1
Other	—	—	—	—	—	—	—	(0.1)	(0.4)	1.6	1.1
	$(0.1)	$(2.1)	$(3.5)	$(1.1)	$(13.0)	$(14.2)	$(3.0)	$(7.3)	$17.7	$34.2	$7.6

For the six months ended June 30, 2013, the unfavorable reserve development for the 2011 and 2012 loss years was due to higher than expected loss emergence, primarily in our private/not for profit D&O, healthcare D&O and E&O lines of business. The healthcare D&O emergence was largely driven by three large claims, each in excess of $3 million. The emergence in the E&O and private/not for profit D&O is due to higher than expected loss frequency.

Acquisition costs. Acquisition costs increased by $6.8 million, or 13.5%, for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The increase was driven by the growth in net premiums earned, higher commission and brokerage rates compared to last year due to changes in the mix of business and higher rates charged by brokers, and an increase in other acquisition related costs. The acquisition cost ratio was 13.4% and 13.1% for the six months ended June 30, 2014 and 2013.

General and administrative expenses. General and administrative expenses increased by $6.1 million, or 7.8%, for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The increase was primarily due to higher salary-

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related costs as we continue to grow our U.S. insurance operations. The general and administrative expense ratio decreased to 19.7% for the six months ended June 30, 2014 from 20.2% for the same period in 2013.

International Insurance Segment

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	($ in millions)			
Revenues				
Gross premiums written	$204.5	$192.6	$338.8	$321.1
Net premiums written	122.2	106.4	197.6	184.1
Net premiums earned	89.2	87.0	177.6	171.2
Expenses				
Net losses and loss expenses	$35.9	$31.0	$59.5	$59.9
Acquisition costs	0.6	(0.4)	(0.4)	(1.2)
General and administrative expenses	29.4	24.1	54.2	48.9
Underwriting income	$23.3	$32.3	$64.3	$63.6
Ratios				
Loss and loss expense ratio	40.3%	35.6%	33.5%	35.0%
Acquisition cost ratio	0.6%	(0.4)%	(0.2)%	(0.7)%
General and administrative expense ratio	33.0%	27.7%	30.5%	28.6%
Expense ratio	33.6%	27.3%	30.3%	27.9%
Combined ratio	73.9%	62.9%	63.8%	62.9%

Comparison of Three Months Ended June 30, 2014 and 2013

Premiums. Gross premiums written increased by $11.9 million, or 6.2%, for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The increase was primarily due to continued growth from new initiatives and new lines of business. Our new aviation and marine cargo business contributed a combined $9.3 million of gross premiums written during the current quarter. The professional liability line of business grew $4.9 million primarily on new business writings in the mergers and acquisitions class of business. This growth was partially offset by the general casualty line of business, which decreased by $3.7 million primarily due to the non-renewal of certain policies during the current quarter, which did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions). During the quarter, we opened a new branch office in Sydney, Australia to further expand our distribution network in the Asia Pacific region.

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

	Three Months Ended June 30,		Dollar	Percentage
	2014	2013	Change	Change
		($ in millions)		
Bermuda	$135.0	$136.3	$(1.3)	(1.0)%
Europe	61.9	49.2	12.7	25.8%
Asia Pacific	7.6	7.1	0.5	7.0%
	$204.5	$192.6	$11.9	6.2%

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Explanation of Responses:

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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 June 30,		Dollar	Percentage
	2014	2013	Change	Change
	($ in millions)			
General property	$65.5	$65.2	$0.3	0.5 %
Professional liability	62.2	57.3	4.9	8.6 %
General casualty	40.6	44.3	(3.7)	(8.4)%
Healthcare	19.9	21.2	(1.3)	(6.1)%
Trade credit	7.0	4.6	2.4	52.2 %
Aviation	6.7	—	6.7	n/a
Other*	2.6	—	2.6	n/a
	$204.5	$192.6	$11.9	6.2 %

*Includes our marine cargo line of business.

Net premiums written increased by $15.8 million, or 14.8%, for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The increase in net premiums written was primarily due to higher gross premiums written and lower ceded premiums related to our property catastrophe reinsurance protection for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. We ceded 40.2% of gross premiums written for the three months ended June 30, 2014 compared to 44.8% for the three months ended June 30, 2013.

Net premiums earned increased by $2.2 million, or 2.5%, primarily due to higher net premiums written during 2013 and the first half of 2014.

Net losses and loss expenses. Net losses and loss expenses increased by $4.9 million, or 15.8%, for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The following is a breakdown of the loss and loss expense ratio for the three months ended June 30, 2014 and 2013:

	Three Months Ended June 30, 2014		Three Months Ended June 30, 2013		Dollar Change	Loss Ratio Percentage Point Change
	Amount	% of NPE	Amount	% of NPE		
			($ in millions)			
Non-catastrophe	$55.9	62.7 %	$56.7	65.1 %	$(0.8)	(2.4) Pts
Property catastrophe	—	—	—	—	—	—
Current period	55.9	62.7	56.7	65.1	(0.8)	(2.4)
Prior period	(20.0)	(22.4)	(25.7)	(29.5)	5.7	7.1
Net losses and loss expenses	$35.9	40.3 %	$31.0	35.6 %	$4.9	4.7 Pts

Current year non-catastrophe losses and loss expenses

The decrease in the current year non-catastrophe losses and loss expenses and related ratio was primarily due to lower reported property loss activity during the three months ended June 30, 2014 compared to the three months ended June 30, 2013.

Current year property catastrophe losses and loss expenses

During the three months ended June 30, 2014 and June 30, 2013, we did not incur any property catastrophe losses.

Prior year losses and loss expenses

Overall, our international insurance segment recorded net favorable reserve development of $20.0 million during the three months ended June 30, 2014 compared to net favorable reserve development of $25.7 million for the three months ended June 30, 2013, as shown in the tables below.

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(Favorable) and Unfavorable Loss Reserve Development by Loss Year
For the Three Months Ended June 30, 2014

	2004 and Prior	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
	($ in millions)										
General casualty	$5.2	$(0.7)	$(1.2)	$(1.4)	$15.5	$(6.6)	$(4.1)	$2.0	$(0.1)	$—	$8.6
General property	—	(0.2)	(0.4)	(0.1)	—	(0.2)	(0.4)	(1.4)	(2.3)	(5.9)	(10.9)
Professional liability	(1.2)	(0.7)	3.5	(9.1)	(0.4)	(7.7)	(3.5)	(0.4)	6.0	—	(13.5)
Healthcare	(0.1)	0.1	—	—	—	—	(3.9)	(0.2)	(0.2)	—	(4.3)
Trade Credit	—	—	—	—	—	—	—	—	(1.2)	1.3	0.1
	$3.9	$(1.5)	$1.9	$(10.6)	$15.1	$(14.5)	$(11.9)	$—	$2.2	$(4.6)	$(20.0)

For the three months ended June 30, 2014, the unfavorable prior year reserve development in the general casualty line of business for the 2008 loss year related to a single claim estimated to reach our full limit.

(Favorable) and Unfavorable Loss Reserve Development by Loss Year
For the Three Months Ended June 30, 2013

	2003 and Prior	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
	($ in millions)										
General casualty	$6.6	$(0.7)	$(1.4)	$(3.3)	$(2.4)	$(2.0)	$1.7	$—	$(0.2)	$—	$(1.7)
General property	—	—	(0.1)	0.2	0.8	(0.4)	(3.7)	(2.7)	(1.6)	(4.9)	(12.4)
Professional liability	(0.2)	(4.7)	4.5	(1.4)	(5.5)	—	(6.1)	(0.1)	(0.1)	—	(13.6)
Healthcare	—	(0.2)	(0.1)	(0.4)	(0.4)	(0.4)	3.9	(0.2)	(0.2)	—	2.0
	$6.4	$(5.6)	$2.9	$(4.9)	$(7.5)	$(2.8)	$(4.2)	$(3.0)	$(2.1)	$(4.9)	$(25.7)

Acquisition costs. Acquisition costs increased by $1.0 million, for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The acquisition cost ratio was 0.6% for the three months ended June 30, 2014 and negative 0.4% for the three months ended June 30, 2013. The negative cost represents ceding commissions received on ceded premiums, that have been earned, in excess of the brokerage fees and commissions paid on gross premiums written, that have been amortized. The ceding commission income also covers costs that are expensed as incurred.

General and administrative expenses. General and administrative expenses increased by $5.3 million, or 22.0%, for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The increase was primarily due to higher stock-based compensation expense and higher salary-related costs as we continue to grow our international insurance operations. The general and administrative expense ratio was 33.0% and 27.7% for the three months ended June 30, 2014 and 2013, respectively. The increase in the general and administrative expense ratio was primarily due to the higher compensation costs discussed above.

Comparison of Six Months Ended June 30, 2014 and 2013

Premiums. Gross premiums written increased by $17.7 million, or 5.5%, for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The increase was primarily due to continued growth from new initiatives and new lines of business. Our new aviation and marine cargo business contributed $13.6 million of gross premiums written during the current period. The professional liability line of business grew $9.4 million on new business writings in European E&O and mergers and acquisitions classes of business. This growth was partially offset by the general casualty line of business, which decreased by $7.6 million compared to the prior period, due to non-recurring business written in 2013 and the non-renewal of certain policies during the current period, which did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions).

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

	Six Months Ended June 30, 2014	2013	Dollar Change	Percentage Change
		($ in millions)		
Bermuda	$214.9	$221.5	$(6.6)	(3.0)%
Europe	110.9	86.8	24.1	27.8%
Asia Pacific	13.0	12.8	0.2	1.6%
	$338.8	$321.1	$17.7	5.5%

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

	Six Months Ended June 30, 2014	2013	Dollar Change	Percentage Change
	($ in millions)			
General property	$102.1	$103.9	$(1.8)	(1.7)%
Professional liability	99.8	90.4	9.4	10.4%
General casualty	60.7	68.3	(7.6)	(11.1)%
Healthcare	47.1	47.7	(0.6)	(1.3)%
Trade credit	15.5	10.8	4.7	43.5%
Aviation	9.5	—	9.5	n/a
Other*	4.1	—	4.1	n/a
	$338.8	$321.1	$17.7	5.5%

* Includes our marine cargo line of business.

Net premiums written increased by $13.5 million, or 7.3%, for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The increase in net premiums written was primarily due to higher gross premiums written and lower ceded premiums related to our property catastrophe reinsurance protection for the six months ended June 30, 2014 compared to the six months ended June 30, 2013 partially offset by higher premiums ceded for new reinsurance contracts for our aviation, marine cargo and small- to medium-sized enterprise lines of business, which included additional ceded premium due to recognizing annual ceded premiums written at the inception of certain reinsurance treaties rather than ratably over the contract period where there is a contractual minimum premium. We ceded 41.7% of gross premiums written for the six months ended June 30, 2014 compared to 42.7% for the six months ended June 30, 2013.

Net premiums earned increased by $6.4 million, or 3.7%, primarily due to higher net premiums written during 2013 and into 2014.

Net losses and loss expenses. Net losses and loss expenses decreased by $0.4 million, or 0.7%, for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The following is a breakdown of the loss and loss expense ratio for the six months ended June 30, 2014 and 2013:

	Six Months Ended June 30, 2014 Amount	% of NPE	Six Months Ended June 30, 2013 Amount	% of NPE	Dollar Change	Loss Ratio Percentage Point Change
			($ in millions)			
Non-catastrophe	$108.9	61.3%	$115.3	67.4%	$(6.4)	(6.1) Pts

Property catastrophe	—	—	—	—	—	—
Current period	108.9	61.3	115.3	67.4	(6.4)	(6.1)
Prior period	(49.4)	(27.8)	(55.4)	(32.4)	6.0	4.6
Net losses and loss expenses	$59.5	33.5%	$59.9	35.0%	$(0.4)	(1.5) Pts

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Current year non-catastrophe losses and loss expenses

The decrease in the current year non-catastrophe losses and loss expenses and related ratio was primarily due lower reported property loss activity during the six months ended June 30, 2014 compared to the six months ended June 30, 2013 and an increase to the loss adjustment expense reserve during the six months ended June 30, 2013 that did not occur during the six months ended June 30, 2014.

Current year property catastrophe losses and loss expenses

During the six months ended June 30, 2014 and June 30, 2013, we did not incur any property catastrophe losses.

Prior year losses and loss expenses

Overall, our international insurance segment recorded net favorable reserve development of $49.4 million during the six months ended June 30, 2014 compared to net favorable reserve development of $55.4 million for the six months ended June 30, 2013, as shown in the tables below.

(Favorable) and Unfavorable Loss Reserve Development by Loss Year
For the Six Months Ended June 30, 2014

	2004 and Prior	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
	($ in millions)										
General casualty	$9.6	$(1.4)	$(2.5)	$(3.5)	$11.4	$(9.3)	$(8.8)	$1.9	$(0.1)	$—	$(2.7)
General property	(0.3)	0.1	(0.5)	(1.1)	(0.3)	(0.7)	0.1	(4.6)	(4.6)	(10.1)	(22.0)
Professional liability	(1.4)	(1.6)	3.2	(22.8)	(1.0)	(10.3)	(3.6)	(0.8)	5.9	—	(32.4)
Healthcare	(0.1)	(0.9)	(0.9)	(1.0)	(0.8)	—	(3.9)	(0.5)	(0.2)	16.0	7.7
Trade Credit	—	—	—	—	—	—	(0.1)	(1.0)	(0.2)	1.3	—
	$7.8	$(3.8)	$(0.7)	$(28.4)	$9.3	$(20.3)	$(16.3)	$(5.0)	$0.8	$7.2	$(49.4)

For the six months ended June 30, 2014, the unfavorable prior year reserve development in the healthcare line of business for the 2013 loss year and for the general casualty line of business for the 2008 loss year related to single claims within each of those lines of business. The favorable prior year reserve development in the professional liability line of business for the 2007 loss year was primarily due to favorable reserve development on an individual claim. The favorable development in the 2009 and 2010 loss years was primarily due to actual loss emergence being lower than anticipated across several lines of business.

(Favorable) and Unfavorable Loss Reserve Development by Loss Year
For the Six Months Ended June 30, 2013

	2003 and Prior	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
	($ in millions)										
General casualty	$6.3	$2.4	$(7.0)	$(6.7)	$(8.7)	$(4.7)	$(1.2)	$(0.2)	$—	$0.9	$(18.9)
General property	—	—	(0.1)	(0.2)	1.1	(1.0)	(3.5)	(4.0)	(9.5)	(8.1)	(25.3)
Professional liability	(0.3)	(5.0)	3.3	(2.9)	(10.9)	0.3	(6.5)	(0.4)	(0.1)	—	(22.5)
Healthcare	(0.1)	(0.3)	(0.5)	(1.1)	8.2	(4.5)	10.6	(0.9)	(0.1)	—	11.3
	$5.9	$(2.9)	$(4.3)	$(10.9)	$(10.3)	$(9.9)	$(0.6)	$(5.5)	$(9.7)	$(7.2)	$(55.4)

For the six months ended June 30, 2013, the net favorable reserve development for loss years 2004 through 2012 was a result of actual loss emergence being lower than anticipated. The unfavorable reserve development in our healthcare line in the 2007 and 2009 loss years was due to adverse development on individual claims.

Acquisition costs. Acquisition costs increased by $0.8 million, for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The acquisition cost ratio was negative 0.2% for the six months ended June 30, 2014 and negative

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0.7% for the six months ended June 30, 2013. The lower negative acquisition cost ratio is primarily due to higher other acquisition related costs during the current year as compared to prior year partially offset by additional ceding commission income earned on the new aviation reinsurance treaties and increased ceding commission income on certain renewal reinsurance treaties.

General and administrative expenses. General and administrative expenses increased by $5.3 million, or 10.8%, for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The increase in general and administrative expenses were due to increased salary and related costs. The general and administrative expense ratio was 30.5% and 28.6% for the six months ended June 30, 2014 and 2013, respectively.

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	($ in millions)			
Revenues				
Gross premiums written	$214.5	$265.3	$711.6	$717.9
Net premiums written	209.8	253.4	703.2	678.5
Net premiums earned	233.4	222.8	463.3	413.4
Expenses				
Net losses and loss expenses	$133.4	$119.8	$243.2	$212.7
Acquisition costs	44.0	37.7	85.2	72.1
General and administrative expenses	20.2	18.1	38.3	36.5
Underwriting income	$35.8	$47.2	$96.6	$92.1
Ratios				
Loss and loss expense ratio	57.2 %	53.8 %	52.5 %	51.5 %
Acquisition cost ratio	18.9 %	16.9 %	18.4 %	17.4 %
General and administrative expense ratio	8.6 %	8.1 %	8.3 %	8.8 %
Expense ratio	27.5 %	25.0 %	26.7 %	26.2 %
Combined ratio	84.7 %	78.8 %	79.2 %	77.7 %

Comparison of Three Months Ended June 30, 2014 and 2013

Premiums. Gross premiums written decreased by $50.8 million, or 19.1%, for the three months ended June 30, 2014 compared to the same period in 2013. The decrease was primarily due to the timing of renewals that were not renewed in the current quarter but were previously bound during the quarter ended June 30, 2013 and lower premiums written in our property reinsurance lines of business. In our property reinsurance lines of business, we had lower premiums written during the current quarter compared to the same quarter last year of $12.4 million from our collateralized property catastrophe reinsurance program through Aeolus Re.

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

	Three Months Ended June 30, 2014	2013	Dollar Change	Percentage Change
		($ in millions)		
United States	$104.2	$132.9	$(28.7)	(21.6)%
Bermuda	50.9	74.7	(23.8)	(31.9)%
Asia	43.3	46.7	(3.4)	(7.3)%
Europe	16.1	11.0	5.1	46.4%
	$214.5	$265.3	$(50.8)	(19.1)%

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

	Three Months Ended June 30, 2014	2013	Dollar Change	Percentage Change
		($ in millions)		
Property	$119.8	$152.4	$(32.6)	(21.4)%
Casualty	64.4	76.7	(12.4)	(16.1)%
Specialty	30.3	36.2	(5.9)	(16.3)%
	$214.5	$265.3	$(50.8)	(19.1)%

Net premiums written decreased by $43.6 million, or 17.2%, due to the decrease in gross premiums written partially offset by lower ceded premiums during the three months ended June 30, 2014 compared to the three months ended June 30, 2013.

Net premiums earned increased by $10.6 million, or 4.8%, as a result of the increase in net premiums written during the previous quarters, as well as the reduction in ceded earned premium related to the non-renewal of the collateralized retrocessional catastrophe cover that we purchased during the first quarter of 2013 partially offset by the ceded earned premium related to the collateralized property catastrophe reinsurance we purchased in the current quarter.

Net losses and loss expenses. Net losses and loss expenses increased by $13.6 million, or 11.4%, for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The following is a breakdown of the loss and loss expense ratio for the three months ended June 30, 2014 and 2013:

	Three Months Ended June 30, 2014		Three Months Ended June 30, 2013		Dollar Change	Loss Ratio Percentage Point Change
	Amount	% of NPE	Amount	% of NPE		
			($ in millions)			
Non-catastrophe	$159.6	68.4%	$139.6	62.7%	$20.0	5.7
Property catastrophe	—	—	—	—	—	—
Current period	159.6	68.4	139.6	62.7	20.0	5.7
Prior period	(26.2)	(11.2)	(19.8)	(8.9)	(6.4)	(2.3)
Net losses and loss expenses	$133.4	57.2%	$119.8	53.8%	$13.6	3.4

Current year non-catastrophe losses and loss expenses

The increase in the current year non-catastrophe losses and loss expenses was primarily due to the growth of the business and higher reported large property losses during the three months ended June 30, 2014 compared to the same period in 2013. The reported large property losses during the three months ended June 30, 2014 primarily related to several storm events in the United States, an earthquake in Chile, an oil spill in the Gulf of Mexico and a fire at a Russian oil refinery. The increase in the current year non-catastrophe losses and loss expense ratio was primarily due to the higher reported large losses discussed above, which resulted in an increase of 6.0 percentage points in the current year non-catastrophe losses and loss expense ratio.

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Current year property catastrophe losses and loss expenses

During the three months ended June 30, 2014 and June 30, 2013, we did not incur any property catastrophe losses.

Prior year losses and loss expenses

Overall, our reinsurance segment recorded net favorable reserve development of $26.2 million during the three months ended June 30, 2014 compared to net favorable reserve development of $19.8 million for the three months ended June 30, 2013, as shown in the tables below.

(Favorable) and Unfavorable Loss Reserve Development by Loss Year
For the Three Months Ended June 30, 2014

	2004 and Prior	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
	($ in millions)										
Property	$0.4	$—	$(0.1)	$—	$0.1	$0.4	$0.4	$(5.1)	$(2.6)	$(15.9)	$(22.4)
Casualty	0.7	(0.6)	(0.5)	(0.2)	0.2	(1.2)	0.2	0.2	(0.9)	(0.8)	(2.9)
Specialty	(0.4)	(0.5)	(0.1)	(0.1)	—	0.2	0.2	(0.4)	5.9	(5.7)	(0.9)
	$0.7	$(1.1)	$(0.7)	$(0.3)	$0.3	$(0.6)	$0.8	$(5.3)	$2.4	$(22.4)	$(26.2)

For the three months ended June 30, 2014, the net favorable reserve development in the property line of business for the 2013 loss year is due to lower than expected reported loss activity.

(Favorable) and Unfavorable Loss Reserve Development by Loss Year
For the Three Months Ended June 30, 2013

	2003 and Prior	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
	($ in millions)										
Property	$—	$0.1	$(0.5)	$0.1	$—	$(0.1)	$—	$(0.6)	$(1.5)	$(22.6)	$(25.1)
Casualty	(0.3)	(1.1)	(0.1)	0.8	—	(1.1)	(0.1)	0.7	3.3	5.3	7.4
Specialty	—	(0.3)	(0.4)	0.4	—	(2.7)	1.5	—	0.8	(1.4)	(2.1)
	$(0.3)	$(1.3)	$(1.0)	$1.3	$—	$(3.9)	$1.4	$0.1	$2.6	$(18.7)	$(19.8)

For the three months ended June 30, 2013, the favorable reserve development for the 2012 loss year for our reinsurance segment was largely due to lower than expected reported losses in our property line of business. Our casualty line of business experienced higher than expected loss emergence that caused the unfavorable loss reserve development in the 2011 and 2012 loss years.

Acquisition costs. Acquisition costs increased by $6.3 million, or 16.7%, for the three months ended June 30, 2014 compared to the three months ended June 30, 2013. The increase was due to the increase in premiums earned, as well as higher profit commission accruals recorded in the current quarter and increased ceding commission charged by cedents in certain lines of business. The acquisition cost ratio was 18.9% for the three months ended June 30, 2014 compared to 16.9% for the three months ended June 30, 2013. The increase in the acquisition cost ratio was due to higher profit commission accruals and increased ceding commission charged by cedents.

General and administrative expenses. General and administrative expenses increased by $2.1 million, or 11.6%, for the three months ended June 30, 2014 compared to the same period in 2013. The increase in general and administrative expenses was primarily due to higher stock-based compensation expense. The general and administrative expense ratios for the three months ended June 30, 2014 and 2013 were 8.6% and 8.1%, respectively, due to the higher expenses noted above partially offset by higher net premiums earned.

Comparison of Six Months Ended June 30, 2014 and 2013

Premiums. Gross premiums written decreased by $6.3 million, or 0.9%, for the six months ended June 30, 2014 compared to the same period in 2013. The decrease was driven primarily by the timing of a renewal that was not renewed in the current period but was previously bound during the six months ended June 30, 2013 partially offset by new business and increased

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renewals across several major lines of business. In our property reinsurance lines of business, we had increased premiums of approximately $3.6 million from our collateralized property catastrophe reinsurance program through Aeolus Re. In our specialty lines of business, our crop reinsurance line of business increased gross premiums written by $8.5 million primarily due to increases on renewals and new business. We also experienced non-renewals of certain treaties, particularly in our casualty reinsurance line of business, either due to poor terms and conditions or the cedents not renewing their reinsurance or finding other reinsurance alternatives, and net downward premium adjustments on inforce treaties.

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

	Six Months Ended June 30, 2014	2013	Dollar Change	Percentage Change
	($ in millions)			
United States	$355.9	$355.3	$0.6	0.2%
Bermuda	200.6	218.2	(17.6)	(8.1)%
Asia	84.7	84.4	0.3	0.4%
Europe	70.4	60.0	10.4	17.3%
	$711.6	$717.9	$(6.3)	(0.9)%

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

	Six Months Ended June 30, 2014	2013	Dollar Change	Percentage Change
	($ in millions)			
Property	$370.3	$364.0	$6.3	1.7%
Specialty	191.8	179.6	12.2	6.8%
Casualty	149.5	174.3	(24.8)	(14.2)%
	$711.6	$717.9	$(6.3)	(0.9)%

Net premiums written increased by $24.7 million, or 3.6%, primarily due to not renewing the collateralized retrocessional catastrophe cover partially offset by ceded premiums written for the current year collateralized property catastrophe reinsurance protection.

Net premiums earned increased by $49.9 million, or 12.1%, as a result of the increase in net premiums written during 2013 and into 2014, as well as the reduction in ceded earned premium related to the non-renewal of the collateralized retrocessional catastrophe cover.

Net losses and loss expenses. Net losses and loss expenses increased by $30.5 million, or 14.3%, for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The following is a breakdown of the loss and loss expense ratio for the three months ended June 30, 2014 and 2013:

	Six Months Ended June 30, 2014		Six Months Ended June 30, 2013		Dollar Change	Loss Ratio Percentage Point Change
	Amount	% of NPE	Amount	% of NPE		
			($ in millions)			
Non-catastrophe	$289.6	62.5%	$257.4	62.3%	$32.2	0.2
Property catastrophe	—	—	—	—	—	—
Current period	289.6	62.5	257.4	62.3	32.2	0.2
Prior period	(46.4)	(10.0)	(44.7)	(10.8)	(1.7)	0.8

Net losses and loss expenses	$243.2	52.5	%	$212.7	51.5	%	$30.5	1.0

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Current year non-catastrophe losses and loss expenses

The increase in the current year non-catastrophe losses and loss expenses and the related ratio was primarily due to higher reported property losses during the six months ended June 30, 2014 compared to the six months ended June 30, 2013 partially offset by the mix of business.

Current year property catastrophe losses and loss expenses

During the six months ended June 30, 2014 and June 30, 2013, we did not incur any property catastrophe losses.

Prior year losses and loss expenses

Overall, our reinsurance segment recorded net favorable reserve development of $46.4 million during the six months ended June 30, 2014 compared to net favorable reserve development of $44.7 million for the six months ended June 30, 2013, as shown in the tables below.

(Favorable) and Unfavorable Loss Reserve Development by Loss Year
For the Six Months Ended June 30, 2014

	2004 and Prior	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
	($ in millions)										
Property	$0.5	$—	$(0.2)	$(0.2)	$(0.2)	$0.3	$1.0	$(5.8)	$(4.3)	$(29.6)	$(38.5)
Casualty	(0.7)	—	(1.8)	(2.1)	(1.2)	(1.0)	1.0	1.1	(0.2)	1.4	(3.5)
Specialty	(0.4)	(0.3)	(0.1)	(0.1)	—	0.3	0.3	(0.4)	4.8	(8.5)	(4.4)
	$(0.6)	$(0.3)	$(2.1)	$(2.4)	$(1.4)	$(0.4)	$2.3	$(5.1)	$0.3	$(36.7)	$(46.4)

For the six months ended June 30, 2014, the net favorable reserve development in the property line of business for the 2013 loss year is due to lower than expected reported loss activity.

(Favorable) and Unfavorable Loss Reserve Development by Loss Year
For the Six Months Ended June 30, 2013

	2003 and Prior	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
	($ in millions)										
Property	$—	$0.1	$(2.3)	$0.1	$—	$(0.2)	$(0.1)	$(2.9)	$(8.5)	$(35.5)	$(49.3)
Casualty	0.2	(1.2)	(0.3)	0.7	(2.2)	(3.6)	(0.4)	0.9	3.3	5.3	2.7
Specialty	—	(0.3)	(0.5)	0.3	—	(3.1)	0.9	(0.1)	2.3	2.4	1.9
	$0.2	$(1.4)	$(3.1)	$1.1	$(2.2)	$(6.9)	$0.4	$(2.1)	$(2.9)	$(27.8)	$(44.7)

For the six months ended June 30, 2013, the favorable reserve development for the 2012 loss year for our reinsurance segment was largely due to lower than expected reported losses in our property line of business.

Acquisition costs. Acquisition costs increased by $13.1 million, or 18.2%, for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. The increase was due to the increase in premiums written, as well as higher profit commission accruals recorded in the current quarter and increased ceding commission charged by cedents in certain lines of business. The acquisition cost ratio was 18.4% for the six months ended June 30, 2014 compared to 17.4% for the six months ended June 30, 2013. The increase in the acquisition cost ratio was due to higher profit commission accruals and increased ceding commission charged by cedents

General and administrative expenses. General and administrative expenses increased by $1.8 million, or 4.9%, for the six months ended June 30, 2014 compared to the same period in 2013. The increase in general and administrative expenses was primarily due to higher salary related costs partially offset by lower stock-based compensation expense. The general and administrative expense ratios for the six months ended June 30, 2014 and 2013 were 8.3% and 8.8%, respectively. The decrease in the general and administrative expense ratio was due to the increase in net premiums earned outpacing the increase in expenses.

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Reserves for Losses and Loss Expenses

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

	U.S. Insurance		International Insurance		Reinsurance		Total	
	Jun 30, 2014	Dec 31, 2013	Jun 30, 2014	Dec 31, 2013	Jun 30, 2014	Dec 31, 2013	Jun 30, 2014	Dec 31, 2013
	($ in millions)							
Case reserves	$591.9	$609.8	$483.6	$441.0	$468.1	$470.1	$1,543.6	$1,520.9
IBNR	1,607.4	1,509.2	1,683.7	1,710.4	1,101.0	1,026.0	4,392.1	4,245.6
Reserve for losses and loss expenses	2,199.3	2,119.0	2,167.3	2,151.4	1,569.1	1,496.1	5,935.7	5,766.5
Reinsurance recoverables	(576.4)	(558.7)	(717.3)	(669.6)	(8.0)	(6.2)	(1,301.7)	(1,234.5)
Net reserve for losses and loss expenses	$1,622.9	$1,560.3	$1,450.0	$1,481.8	$1,561.1	$1,489.9	$4,634.0	$4,532.0

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 June 30, 2014:

	Reserve for Losses and Loss Expenses Gross of Reinsurance Recoverable		
	Carried Reserves	Low Estimate	High Estimate
	($ in millions)		
U.S. insurance	$2,199.3	$1,734.8	$2,469.5
International insurance	2,167.3	1,691.6	2,378.0
Reinsurance	1,569.1	1,281.2	1,750.5
Consolidated (1)	5,935.7	4,795.5	6,512.1

	Reserve for Losses and Loss Expenses Net of Reinsurance Recoverable		
	Carried Reserves	Low Estimate	High Estimate
	($ in millions)		
U.S. insurance	$1,622.9	$1,287.8	$1,854.3
International insurance	1,450.0	1,123.4	1,606.6
Reinsurance	1,561.1	1,275.0	1,742.1
Consolidated (1)	4,634.0	3,763.5	5,125.8

(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 reserve for losses and loss expenses, we have carried our consolidated reserve 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 June 30, 2014 and December 31, 2013:

	June 30, 2014	December 31, 2013
	($ in millions)	
Ceded case reserves	$248.8	$225.8
Ceded IBNR reserves	1,052.9	1,008.7
Reinsurance recoverable	$1,301.7	$1,234.5

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 June 30, 2014 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 $8.8 billion as of June 30, 2014, the main components of which were investment grade fixed income securities and cash and cash equivalents. As of June 30, 2014, we held $635.1 million of unrestricted cash and cash equivalents and $518.0 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 June 30, 2014, 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 2013 Form 10-K.

Cash Flows

	Six Months Ended June 30,	
	2014	2013
	($ in millions)	
Cash flows provided by operating activities	$448.9	$133.6
Cash flows used in investing activities	(184.2)	(43.4)
Cash flows used in financing activities	(164.7)	(90.3)
Effect of exchange rate changes on foreign currency cash	3.2	(7.7)
Net increase (decrease) in cash and cash equivalents	103.2	(7.8)
Cash and cash equivalents, beginning of period	531.9	681.9
Cash and cash equivalents, end of period	$635.1	$674.1

The primary sources of cash inflows from operating activities are premiums received, loss payments from reinsurers, return of funds held balances related to our collateralized property catastrophe reinsurance program through 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 10 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.

The increase in cash flows from operations was primarily due to the receipt of $212.3 million of our funds held balance from Aeolus Re, which is included in "funds held" on the unaudited condensed consolidated balance sheets, for the 2013 and prior underwriting years. The return of our funds held balance from Aeolus Re is a function of the performance of each underwriting year. The timing and the amounts received from Aeolus Re can vary significantly, and we could potentially not receive any amounts back.

Cash flows from investing activities consist primarily of proceeds on the sale of investments and payments for investments acquired in addition to changes in restricted cash. The change in cash flows used in investing activities reflects the higher net purchases of securities during the six months ended June 30, 2014 compared to the same period in 2013.

Cash flows from financing activities consist primarily of capital raising activities, which include the issuance of common shares or debt, the repurchase of our shares, the payment of dividends and the repayment of debt. The increase in cash flows used in financing activities was due to the $55.2 million increase in share repurchases for the six months ended June 30, 2014 compared to the six months ended June 30, 2013. Dividends paid increased as we increased our quarterly dividend per share amount to $0.167 in 2014 from $0.125 in 2013.

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Investments

Our funds are primarily invested in liquid, high-grade fixed income securities. As of June 30, 2014 and December 31, 2013, 88.3% and 89.3%, 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 June 30, 2014 and December 31, 2013 was as follows:

	June 30, 2014	December 31, 2013
	($ in millions)	
Due in one year or less	$518.0	$838.8
Due after one year through five years	2,805.5	2,698.8
Due after five years through ten years	739.2	697.8
Due after ten years	93.2	67.0
Mortgage-backed	1,323.8	1,292.5
Asset-backed	677.4	505.9
Total	$6,157.1	$6,100.8

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 $932.6 million as of June 30, 2014. 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 $1.45 billion in letters of credit under two letter of credit facilities, a $1.0 billion uncommitted secured facility with Citibank Europe plc and a $450 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 June 30, 2014.

As of June 30, 2014, we had combined unused letters of credit capacity of $747.6 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 six months ended June 30, 2014, we did not utilize the revolving loan available under the Amended Secured Credit Facility.

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Allied World Assurance Company, AG entered into a 20-year mortgage commitment with a Swiss bank for a company-used 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 provides up to CHF 5.0 million for general corporate purposes; however, we will use the proceeds from the credit facility to fund the purchase 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 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 June 30, 2014 and December 31, 2013, $2,745.4 million and $2,894.4 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 June 30, 2014 and December 31, 2013, a further $886.2 million and $1,053.6 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 June 30, 2014 have not changed since December 31, 2013. See Item 1. “Business” in our 2013 Form 10-K.

Capital Resources

The table below sets forth the capital structure of the Company as of June 30, 2014 and December 31, 2013:

	June 30, 2014	December 31, 2013
	($ in millions)	

Senior notes	$798.6	$798.5
Shareholders’ equity	3,682.8	3,519.8
Total capitalization	$4,481.4	$4,318.3
Debt to total capitalization	17.8 %	18.5 %

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

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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 new share repurchase program in order for us to repurchase up to $500.0 million of our common shares. This new share repurchase program supersedes the 2012 share repurchase program and no further repurchases will be made under the 2012 share repurchase program. Under the terms of this new 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 June 30, 2014 approximately $454.2 million remained under this share repurchase authorization.

During the three month and six months ended June 30, 2014, our share repurchases were as follows:

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
	($ in millions)	
Common shares repurchased	1,949,496	3,961,692
Total cost of shares repurchased	$70.9	$139.5
Average price per share	$36.36	$35.22

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 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 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.

Allied World Assurance Company, AG entered into a 20-year mortgage commitment with a Swiss bank for a company-used office building in Zug, Switzerland. The total proceeds to be received under the mortgage are CHF 18.0 million with a fixed annual interest rate of 3.2% payable quarterly. The mortgage payments will be 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. We will receive the proceeds from the bank during the fourth quarter of 2014 at which time we will recognize the mortgage loan liability in our consolidated balance sheet.

Off-Balance Sheet Arrangements

As of June 30, 2014, we did not have any off-balance sheet arrangements.

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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 June 30, 2014 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.

	Interest Rate Shift in Basis Points						
	-200	-100	-50	—	+50	+100	+200
	($ in millions)						
Total fair value	$7,201.7	$7,065.9	$6,993.9	$6,920.0	$6,846.1	$6,773.2	$6,630.6
Fair value change from base	281.7	145.9	73.9	—	(73.9)	(146.8)	(289.4)
Change in unrealized appreciation/(depreciation)	4.1%	2.1%	1.1%	—%	(1.1)%	(2.1)%	(4.2)%

In the table below changes in fair values as a result of changes in credit spreads are determined by calculating hypothetical June 30, 2014 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	$5,318.3	$5,208.4	$5,153.5	$5,098.5	$5,043.5	$4,988.6	$4,878.7
Fair value change from base	219.8	109.9	55.0	—	(55.0)	(109.9)	(219.8)
Change in unrealized appreciation/(depreciation)	4.3%	2.2%	1.1%	—%	(1.1)%	(2.2)%	(4.3)%

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 June 30, 2014.

	Fair Value June 30, 2014 ($ in millions)	Average Rating	Portfolio Percentage	
Cash and cash equivalents	$762.9	AAA	8.7	%
U.S. government securities	1,058.6	AA+	11.9	%
U.S. government agencies	215.7	AA+	2.5	%
Non-U.S. government and government agencies	185.1	AA+	2.1	%
State, municipalities and political subdivisions	261.3	AA-	3.0	%
Mortgage-backed securities (“MBS”):				
Agency MBS	659.0	AA+	7.5	%
Non-agency MBS	129.5	B+	1.5	%
Commercial MBS	535.3	BBB	6.1	%
Total mortgage-backed securities	1,323.8		15.1	%
Corporate securities:				
Financials	1,168.9	A	13.3	%
Industrials	1,167.5	BBB	13.3	%
Utilities	98.9	BBB+	1.1	%
Total corporate securities	2,435.3		27.7	%
Asset-backed securities:				
Credit cards	67.6	AAA	0.8	%
Auto receivables	11.2	AAA	0.1	%
Student Loans	154.9	AA+	1.8	%
Collateralized loan obligations	381.6	AA	4.3	%
Other	62.1	AAA	0.7	%
Total asset-backed securities	677.4		7.7	%
Other invested assets:				
Private equity	266.8	N/A	3.0	%
Hedge funds	505.2	N/A	5.7	%
Other private securities	128.1	N/A	1.5	%
High yield loan fund	32.5	N/A	0.4	%
Total other invested assets	932.6		10.6	%
Equities	938.1	N/A	10.7	%
Total investment portfolio	$8,790.8		100.0	%

As of June 30, 2014, we held $6.2 billion of fixed income securities. Of those assets, approximately 88.3% were rated investment grade (Baa3/BBB- or higher) with the remaining 11.7% 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 June 30, 2014, we held investments in "other invested assets" with a carrying value of $932.6 million. Included in other invested assets are private equity funds, hedge funds, other private securities and a high yield loan fund. Investments in

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these types of assets involve certain risks related to, among other things, the illiquid nature of the fund shares, 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 June 30, 2014, our direct exposure to European credit across all of Europe was $748.2 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 June 30, 2014, we had no direct sovereign exposure to Greece, Ireland, Italy, Portugal, Spain or Ukraine.

	June 30, 2014 Sovereign and Sovereign Guaranteed ($ in millions)	Structured Products	Corporate Bonds and Equities	Total Exposure
Austria	$—	$—	$0.1	$0.1
Belgium	—	—	15.8	15.8
Denmark	—	—	2.0	2.0
Finland	—	—	1.2	1.2
France	—	0.9	207.4	208.3
Germany	31.8	—	21.1	52.9
Hungary	—	—	0.2	0.2
Ireland	—	5.2	1.5	6.7
Italy	—	—	5.4	5.4
Luxembourg	—	3.7	14.3	18.0
Netherlands	34.3	0.8	79.9	115.0
Norway	—	—	24.7	24.7
Poland	—	—	0.7	0.7
Portugal	—	—	0.7	0.7
Spain	—	—	17.8	17.8
Sweden	—	—	45.7	45.7
Switzerland	2.3	—	43.6	45.9
United Kingdom	27.3	4.2	155.7	187.2
Total exposure	$95.7	$14.8	$637.7	$748.2

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 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 June 30, 2014 and December 31, 2013, approximately 4.3% and 2.3%, 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 six months ended June 30, 2014 and 2013, approximately 14% and 11%, respectively, 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

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procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of June 30, 2014. 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 June 30, 2014, 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 June 30, 2014 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 June 30, 2014, 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 2013 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 2013 Form 10-K. The risks described in our 2013 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 June 30, 2014:

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	
April 1 - 30 2014	690,000	$34.76	690,000	$142.9	million
May 1 - 31, 2014	630,000	36.79	630,000	477.9	million
June 1 - 30, 2014	629,496	37.65	629,496	454.2	million
Total	1,949,496	$36.36	1,949,496	$454.2	million(1)

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(1) At the 2014 Annual Shareholder Meeting on May 1, 2014, Holdings' shareholders approved a new, two-year $500 million share repurchase program. The new share repurchase program superseded the 2012 share repurchase program effective May 1, 2014. Share repurchases may be effected from time to time through open market purchases, privately negotiated transactions, tender offers or otherwise.

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
3.1(1)	Articles of Association of Allied World Assurance Company Holdings, AG, as amended and restated.
10.1(2)†	Employment Agreement, dated as of May 1, 2014, by and between Allied World National Assurance Company and Louis P. Iglesias.
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 June 30, 2014 and December 31, 2013, (ii) the Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2014 and 2013, (iii) the Consolidated Statements of Shareholders' Equity for the six months ended June 30, 2014 and 2013, (iv) the Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013 and (v) the Notes to the Consolidated Financial Statements.

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(1) 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 May 2, 2014.

(2) Incorporated herein by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Allied World Assurance Company Holdings, AG filed with the SEC on August 2, 2013. Other than with respect to commencement date, title, base salary and employer, the employment agreement for Mr. Louis P. Iglesias is materially identical to the employment agreement for Mr. John Gauthier filed thereto.

† Management contract or compensatory plan, contract or arrangement.

* 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: July 23, 2014	
	By: /s/ Scott A. Carmilani
	Name: Scott A. Carmilani
	Title: President and Chief Executive Officer
Dated: July 23, 2014	
	By: /s/ Thomas A. Bradley
	Name: Thomas A. Bradley
	Title: Executive Vice President and Chief Financial Officer
Dated: July 23, 2014	
	By: /s/ Kent W. Ziegler
	Name: Kent W. Ziegler
	Title: Senior Vice President, Finance and Chief Accounting Officer

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