CVS CAREMARK CORP
Form DEF 14A
March 29, 2010
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SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

¨ **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

CVS CAREMARK CORPORATION

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(4) Proposed maximum aggregate value of transaction:

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(1) Amount previously paid:

Not Applicable

(2) Form, Schedule or Registration Statement No.:

Not Applicable

(3) Filing Party:

Not Applicable

(4) Date Filed:

Not Applicable

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CVS Caremark Corporation

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

May 12, 2010

9:00 A.M.

CVS Caremark Corporation

One CVS Drive

Woonsocket, Rhode Island 02895

To our stockholders:

We are pleased to invite you to attend our 2010 annual meeting of stockholders to:

- n Elect 12 directors named in the accompanying proxy statement;
- n Ratify the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for fiscal 2010;
- n Adopt the Company s 2010 Incentive Compensation Plan;
- n Adopt a proposal to amend the Company s charter to allow stockholders the right to call special meetings of stockholders;
- n Act on two stockholder proposals to be presented; and
- n Conduct other business properly brought before the meeting.

Stockholders of record at the close of business on March 15, 2010 may vote at the meeting.

Your vote is important. Whether or not you plan to attend the meeting, please vote your shares. In addition to voting in person or by mail, stockholders of record have the option of voting by telephone or via the Internet. If your shares are held in the name of a bank, broker or other holder of record (i.e., in street name), please read your proxy card or other voting instructions to see which of these options are available to you. Even if attending the meeting in person, we encourage you to vote in advance by mail, phone or Internet.

By Order of the Board of Directors,

Thomas M. Ryan

Chairman of the Board, President and Chief Executive Officer

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on May 12, 2010.

The proxy statement and annual report to security holders are available at

http://info.cvscaremark.com/investors.

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INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

The Board of Directors of CVS Caremark Corporation (the Company or CVS Caremark) is soliciting your proxy to vote at our 2010 annual meeting of stockholders (or at any adjournment of the meeting). This proxy statement summarizes the information you need to know to vote at the meeting.

We began mailing this proxy statement and the enclosed proxy card on or about April 2, 2010 to all stockholders entitled to vote. The Company s 2009 Annual Report, which includes our financial statements, is being sent with this proxy statement.

Date, Time and Place of the Meeting

Date:	May 12, 2010
Time:	9:00 a.m. Eastern Time
Place:	CVS Caremark Customer Support Center (Company Headquarters)
	One CVS Drive
	Woonsocket, Rhode Island 02895

Shares Entitled to Vote

Stockholders entitled to vote are those who owned CVS Caremark common stock at the close of business on the record date, March 15, 2010. As of the record date, there were 1,388,453,454 shares of common stock outstanding. Each share of CVS Caremark common stock that you own entitles you to one vote.

The Bank of New York Mellon presently holds shares of common stock as Trustee under the 401(k) Plan and the Employee Stock Ownership Plan of CVS Caremark Corporation and Affiliated Companies (the ESOP). Each participant in the ESOP instructs the Trustee of the ESOP how to vote his or her shares. As to shares with respect to which the Trustee receives no timely voting instructions, the Trustee, pursuant to the ESOP Trust Agreement, votes these shares in the same proportion as it votes all the shares as to which it has received timely voting instructions.

Voting

Whether or not you plan to attend the annual meeting, we urge you to vote. You may vote by calling a toll-free telephone number, by using the Internet or by mailing your signed proxy card in the postage-paid envelope provided. If you vote by telephone or the Internet, you do NOT need to return your proxy card. Returning the proxy card by mail or voting by telephone or Internet will not affect your right to attend the meeting and change your vote, if desired.

If your shares are held in the name of a bank, broker or other holder of record (a nominee), you will receive instructions from the nominee that you must follow in order for your shares to be voted. Certain of these institutions offer telephone and Internet voting.

The enclosed proxy card indicates the number of shares that you own as of the record date.

Voting instructions are included on your proxy card. If you properly fill in your proxy card and send it to us in time to vote, or vote by telephone or the Internet, one of the individuals named on your proxy card (your proxy) will vote your shares as you have directed. If you sign the proxy card but do not make specific choices, your proxy will follow the Board s recommendations and vote your shares:

n FOR the election of all 12 nominees for director (as described beginning on page 52);

- FOR the ratification of the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for fiscal 2010 (as described beginning on page 56);

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- FOR the adoption of the Company s 2010 Incentive Compensation Plan (as described beginning on page 57);

- FOR the adoption of a proposal to amend the Company s charter to allow stockholders the right to call special meetings of stockholders (as described beginning on page 63);

and

- AGAINST both of the stockholder proposals to be presented (as described beginning on page 64).

If any other matter is presented at the meeting, your proxy will vote in accordance with his or her best judgment. At the time this proxy statement went to press, we knew of no other matters to be acted on at the meeting.

Revoking your proxy card

You may revoke your proxy card by:

- sending in another signed proxy card with a later date;

- providing subsequent telephone or Internet voting instructions;

- notifying our Corporate Secretary in writing before the meeting that you have revoked your proxy card; or

- voting in person at the meeting.

Voting in person

If you plan to attend the meeting and vote in person, we will give you a ballot when you arrive. However, if your shares are held in the name of a nominee, you must bring an account statement or letter from the nominee indicating that you were the beneficial owner of the shares on March 15, 2010, the record date for voting.

Appointing your own proxy

If you want to give your proxy to someone other than the individuals named as proxies on the proxy card, you may cross out the names of those individuals and insert the name of the individual you are authorizing to vote. Either you or that authorized individual must present the proxy card at the meeting.

Proxy solicitation

We are soliciting this proxy on behalf of our Board of Directors and will bear the solicitation expenses. We are making this solicitation by mail but we may also solicit by telephone, e-mail or in person. We have hired Morrow & Co., LLC, 470 West Avenue, Stamford, CT 06902, for a fee of $25,000, plus out-of-pocket expenses, to provide customary assistance to us in the solicitation. We will reimburse banks, brokerage houses and other institutions, nominees and fiduciaries, if they request, for their expenses in forwarding proxy materials to beneficial owners.

Householding

Under U.S. Securities and Exchange Commission (SEC) rules, a single set of annual reports and proxy statements may be sent to any household at which two or more Company stockholders reside if they appear to be members of the same family. Each stockholder continues to receive a separate proxy card. This procedure, referred to as householding, reduces the volume of duplicate information stockholders receive and reduces mailing and printing expenses for the Company. The Company may household and brokers with accountholders who are Company stockholders may also be householding our proxy materials. As indicated in the notice previously provided by these brokers to our stockholders, a single annual report and

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proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from an affected stockholder. Once you have received notice from your broker that it will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate annual report and proxy statement, please notify your broker so that separate copies can be delivered to you instead. Stockholders who currently receive multiple copies of the annual report and proxy statement at their address and who would prefer that their communications be householded should contact their broker.

Quorum Requirement

A quorum of stockholders is necessary to hold a valid meeting. The presence in person or by proxy at the meeting of holders of shares representing a majority of shares entitled to vote constitutes a quorum. Abstentions and broker non-votes are counted as present for establishing a quorum. A broker non-vote occurs on an item when a broker is not permitted to vote on that item absent instruction from the beneficial owner of the shares and no instruction is given.

Vote Necessary to Approve Proposals

n *Item 1. Election of Directors*. Each director is elected by a majority of the votes cast with respect to that director s election (at a meeting for the election of directors at which a quorum is present) by the holders of shares of common stock present in person or by proxy at the meeting and entitled to vote.

A majority of votes cast means that the number of votes for a director s election must exceed 50% of the votes cast with respect to that director s election. Votes against a director s election will count as a vote cast, but abstentions and broker non-votes will not count as a vote cast with respect to that director s election.

n *Item 3. Adoption of the Company s 2010 Incentive Compensation Plan.* Under New York Stock Exchange (NYSE) rules, the adoption of the Company s 2010 Incentive Compensation Plan requires a majority of votes cast, provided that the total votes cast must represent a majority of the shares entitled to vote on a proposal. Abstentions in this case have the effect of being counted as a vote against . Broker non-votes can have the effect of being counted as a vote against if they result in the total number of votes cast not representing a majority of the shares entitled to vote on the proposal.

n *All other proposals*. For all other proposals, approval is by affirmative vote (at a meeting at which a quorum is present) of a majority of the votes represented by the shares of common stock present at the meeting in person or by proxy and entitled to vote. Abstentions are counted as shares present or represented and voting and have the effect of a vote against. Broker non-votes are not counted as shares present or represented and voting and have no effect on the vote.

n *Broker voting*. Under current NYSE rules, if the record holder of your shares (usually a bank, broker or other nominee) holds your shares in its name, your record holder is permitted to vote your shares on Item 2, Ratification of Auditors, and Item 4, Management Proposal Regarding Special Stockholder Meetings, in its discretion, even if it does not receive voting instructions from you. On all other Items, including Item 1, Election of Directors, your record holder is not permitted to vote your shares without your instructions and such uninstructed shares are considered broker non-votes.

Important Change. An NYSE rule change that is effective for our 2010 meeting no longer permits brokers to vote in the election of directors if the record holder has not received instructions from the beneficial owner. This represents a change from prior years, when brokers had discretionary voting authority in the election of directors. Accordingly, it is particularly important that beneficial owners instruct their brokers how they wish to vote their shares.

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CORPORATE GOVERNANCE AND RELATED MATTERS

Corporate Governance Guidelines

The Company s Board of Directors acts as the ultimate decision-making body of the Company and advises and oversees management, who are responsible for the day-to-day operations and management of the Company. In carrying out its responsibilities, the Board reviews and assesses the Company s long-term strategy and its strategic, competitive and financial performance. The Board has adopted Corporate Governance Guidelines, which are available on our investor relations website at http://info.cvscaremark.com/investors and also available to stockholders at no charge upon request to the Company s Corporate Secretary. These guidelines meet or exceed the listing standards adopted by the NYSE, on which the Company s common stock is listed.

Meetings of the Board

During 2009, there were nine meetings of the Board of Directors. All of our directors at the time of the Company s 2009 annual meeting of stockholders attended the annual meeting. Directors are expected to make every effort to attend the annual meeting of stockholders, all Board meetings and the meetings of the Committees on which they serve. Each director attended at least 75% of the meetings of the Board and of Committees of which he or she was a member.

One Board meeting was our annual meeting of non-management directors. The non-management directors also regularly hold executive sessions during which the Company s management does not participate.

The Board s Leadership Structure

Mr. Thomas M. Ryan, the Company s President and Chief Executive Officer (CEO), currently serves as the Company s Chairman of the Board. The Board believes that the Company and its stockholders are best served by having the flexibility to have the same individual serve as Chairman and Chief Executive Officer, and that adopting a policy to restrict the Board s discretion in selecting the Chairman of the Board (as well as restricting the ability to combine the positions of Chairman and CEO) would deprive the Board of the ability to select the most qualified and appropriate individual to lead the Board as Chairman. The Board believes it is important to retain its flexibility to allocate the responsibilities of Chairman of the Board and Chief Executive Officer in any way that is in the best interests of the Company at any future point in time. The Board also believes that Board independence and oversight of management are effectively maintained through the Board s current composition, committee system and the position of Lead Director.

In November 2007, the Board amended its Corporate Governance Guidelines and appointed Mr. Terrence Murray as its Lead Director. Under the amended Guidelines the Lead Director: has the authority to call, and to lead, non-management director and independent director sessions; may retain independent legal, accounting or other advisors in connection with these sessions; presides at all meetings of the Board at which the Chairman is not present; facilitates communication and serves as a liaison between the Chairman and the independent directors; advises the Chairman of the informational needs of the Board; advises the Chairman regarding Board meeting agendas and as to the appropriate schedule of Board meetings; and may request inclusion of additional agenda items.

Mr. Ryan, in his capacities as Chairman, President and CEO, serves as a bridge between the Board and management and provides critical leadership for carrying out the Company s strategic initiatives and confronting its challenges. In short, the Board believes that a Chairman who is a member of CVS Caremark s management team is well situated to oversee and execute the Company s strategy and business plans to maximize stockholder value.

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The Board s Role in Risk Oversight

The Board of Directors role in risk oversight involves both the full Board of Directors and its committees. The Audit Committee is charged with the primary role in carrying out risk oversight responsibilities on behalf of the Board. Pursuant to its Charter, the Audit Committee annually reviews the Company s policies and practices with respect to risk assessment and risk management, including discussing with management the Company s major risk exposures and the steps that have been taken to monitor and mitigate such exposures. As part of CVS Caremark s ongoing Enterprise Risk Management process, each of the Company s major business units are responsible for identifying risks that could affect achievement of business goals and strategies, assessing the likelihood and potential impact of significant risks, prioritizing risks and actions to be taken in mitigation and/or response, and reporting to management s Executive Risk Steering Committee on actions to monitor, manage and mitigate significant risks. Additionally, the Chief Financial Officer (CFO), Chief Compliance Officer (CCO) and Chief Legal Officer (CLO) periodically report on the Company s risk management policies and practices to relevant Board committees and to the full Board. The Audit Committee reviews CVS Caremark s major financial risk exposures as well as major operational, compliance, reputational and strategic risks, including steps to monitor, manage and mitigate those risks. In addition, each of the other Board committees is responsible for oversight of risk management practices for categories of risks relevant to their functions. For example, the Management Planning and Development Committee has oversight responsibility for the Company s overall compensation structure, including review of its compensation practices, with a view to assessing associated risk. See Executive Compensation and Related Matters Compensation Discussion and Analysis Risk Assessment. The Board as a group is regularly updated on specific risks in the course of its review of corporate strategy, business plans and reports to the Board by its respective committees.

The Board considers its role in risk oversight when evaluating the Company s Corporate Governance Guidelines and its leadership structure. Both the Corporate Governance Guidelines and the Board s leadership structure facilitate the Board s oversight of risk and communication with management. Our Chairman and CEO is focused on the Company s risk management efforts and ensures that risk matters are appropriately brought to the Board and/or its committees for their review. The Company s Lead Director also is focused on the Board s risk oversight responsibilities and, together with the Chairman, helps lead Board discussions.

Director Nominations

Under the Company s Corporate Governance Guidelines, the Nominating and Corporate Governance Committee recommends to the Board criteria for Board membership and recommends individuals for membership on the Company s Board of Directors. Criteria used by the Committee in nominating directors are found in the Committee s charter and are attached to this proxy statement as Exhibit A. Although there is no specific policy on diversity, the Committee values diversity, which it broadly views in terms of gender, race, background and experience, as a factor in selecting members to serve on the Board, and believes that the diversity of the Board s current composition provides significant benefits to the Company. When considering current directors for re-nomination to the Board, the Committee takes into account the performance of each director. The Committee also reviews the composition of the Board in light of the current challenges and needs of the Board and the Company, and determines whether it may be appropriate to add or remove individuals after considering, among other things, the need for audit committee expertise and issues of independence, judgment, age, skills, background and experience. As desired, the Committee may confer with the Chairman and other directors as to the foregoing matters.

The Nominating and Corporate Governance Committee will consider any director candidates recommended by stockholders who submit a written request to the Secretary of the Company. The candidates should meet the Director Qualification Criteria noted above. The Committee evaluates all director candidates and nominees in the same manner regardless of the source. If a stockholder would like to nominate a person for election or re-election to the Board, he or she must provide notice to the Company as provided in our by-laws. Such notice must be addressed to the Corporate Secretary of the Company and must arrive at the Company in a timely manner, between 90 and 120 days prior to the anniversary of our last annual meeting of stockholders. The notice must include (i) the name and address, as they appear in the Company s books, of the stockholder giving the notice, (ii) the class and number of shares of the Company that are beneficially owned by the stockholder (including information concerning derivative ownership and other arrangements concerning our stock as described in our by-laws), (iii) a written consent indicating that the candidate is willing to be named in the proxy statement as a nominee and to serve as a director if elected, and (iv) any other information that the SEC would require to be included in a proxy statement when a stockholder submits a proposal. See Item 7: Other Matters Stockholder Proposals and Other Business for our Annual Meeting in 2011 for additional information related to the 2011 annual meeting.

The retirement age for CVS Caremark directors is 72. The Company s Corporate Governance Guidelines provide that no director who is or would be over the age of 72 at the expiration of his or her current term may be nominated to a new term, unless the Board waives the retirement age for a specific director in exceptional circumstances. Such a waiver has been granted with respect to Dr. William H. Joyce, Chair of the Company s Audit Committee, who is presently 74. The Board considered a waiver of the retirement age in this case appropriate and in the best interests of the Company in light of the exceptional experience and expertise of Dr. Joyce.

Independence Determinations for Directors

Under the Company s Corporate Governance Guidelines, a majority of our Board must be comprised of directors who meet the director independence requirements set forth in the Corporate Governance Rules of the NYSE applicable to listed companies. Under the NYSE Corporate Governance Rules, no director qualifies as independent unless the Board affirmatively determines that the director has no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). The basis for a Board s determination that a relationship is not material must be disclosed in the Company s annual proxy statement. In this regard, the Board has adopted categorical standards to assist it in making determinations of independence, which are attached to this proxy statement as Exhibit B.

The Nominating and Corporate Governance Committee of the Board undertook its annual review of director independence in March 2010, and determined that each of Edwin M. Banks, C. David Brown II, David W. Dorman, Kristen Gibney Williams, Marian L. Heard, Dr. Joyce, Jean-Pierre Millon, Mr. Murray, C.A. Lance Piccolo, Sheli Z. Rosenberg and Richard W. Swift, is independent. Mr. Ryan is considered an inside director because of his current employment as Chairman, President and CEO of the Company.

In the course of its review as to the independence of each director, the Committee considered transactions and relationships, if any, between each director or any member of his or her immediate family, on the one hand, and the Company and its subsidiaries, on the other. In that regard, the Committee in making its recommendation and the Board in making its determination as to Mr. Murray s independence considered that, consistent with the categorical standards, Mr. Murray and members of his immediate family are equity holders in an entity with which the Company has had ordinary course, arm s-length business dealings that do not cross any of the NYSE bright-line tests, and with respect to which they are not directly responsible for or involved in such entity s business dealings with the Company. See Certain Transactions with Directors and Officers , below.

Contact with the Board, the Lead Director and Other Non-Management Directors

Stockholders and other parties interested in communicating directly with the Board, the Lead Director or with the non-management directors as a group may do so by writing to them care of CVS Caremark Corporation, One CVS Drive, Woonsocket, RI 02895. The Nominating and Corporate Governance Committee has approved a process for handling letters received by the Company and addressed to the Board, the Lead Director or to non-management members of the Board. Under that process, the Corporate Secretary of the Company reviews all such correspondence and regularly forwards to the Board a summary

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of all such correspondence and copies of all correspondence that, in the opinion of the Corporate Secretary, deals with the functions of the Board or committees thereof or that he otherwise determines requires their attention. Directors shall from time to time review a log of all correspondence received by the Company that is addressed to members of the Board and may request copies of any such correspondence. Concerns relating to accounting, internal accounting controls or auditing matters will be promptly brought to the attention of the Company s internal audit department and handled in accordance with procedures established by the Audit Committee with respect to such matters.

Code of Conduct

The Company has adopted a Code of Conduct that applies to all of our directors, officers and employees, including our CEO, CFO and Chief Accounting Officer. The Company s Code of Conduct is available on the Company s website at http://info.cvscaremark.com/investors, and will be provided to stockholders without charge upon request to the Company s Corporate Secretary. The Company intends to post amendments to or waivers from its Code of Conduct (to the extent applicable to the Company s executive officers or directors) at that location on its website within the timeframe required by SEC rules.

Committees of the Board

Audit Committee

William H. Joyce, Chair

Edwin M. Banks

Kristen Gibney Williams

Marian L. Heard

Richard J. Swift

The Audit Committee met eight times during 2009. Each member of the Committee is financially literate and independent of the Company and management under the standards set forth in applicable SEC rules and the Corporate Governance Rules of the NYSE. The Board has designated each of Dr. Joyce, Mr. Banks and Mr. Swift as an audit committee financial expert, as defined under applicable SEC rules. The Board has approved a charter for the Committee, a copy of which can be viewed on the Company s website at http://info.cvscaremark.com/investors, and also is available to stockholders without charge upon request to the Company s Corporate Secretary. Pursuant to its charter, the Committee assists the Board in its oversight of: (i) the integrity of the financial statements of the Company; (ii) the qualifications, independence and performance of the Company s independent registered public accounting firm, for whose appointment the Committee bears principal responsibility; (iii) the performance of the Company s internal audit function; (iv) the Company s policies and practices with respect to risk assessment and risk management, including discussing with management the Company s major financial risk exposures and the steps that have been taken to monitor and control such exposures; (v) compliance with the Company s Code of Conduct; (vi) review and ratification of any related person transactions pursuant to the Company s policy on such matters; and (vii) compliance by the Company with legal and regulatory requirements. The Committee also approved the Audit Committee Report that is found on page 13 of this proxy statement.

Nominating and Corporate Governance Committee

David W. Dorman, Chair

Edwin M. Banks

C. David Brown II

Marian L. Heard

Sheli Z. Rosenberg

The Nominating and Corporate Governance Committee met four times during 2009. Each member of the Committee is independent of the Company and management under the standards set forth in the Corporate Governance Rules of the NYSE. The Board has approved a charter for the Committee, a copy of

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which can be viewed on the Company s website at http://info.cvscaremark.com/investors, and also is available to stockholders without charge upon request to the Company s Corporate Secretary. Pursuant to its charter, the Committee has responsibility for: (i) identifying individuals qualified to become Board members; (ii) recommending to the Board director nominees for election at the next annual or special meeting of stockholders at which directors are to be elected or to fill any vacancies or newly-created directorships that may occur between such meetings; (iii) recommending directors for appointment to Board committees; (iv) making recommendations to the Board as to determinations of director independence; (v) evaluating Board and committee performance; and (vi) reviewing and assessing the Company s Corporate Governance Guidelines and overseeing compliance with such Guidelines.

Management Planning and Development Committee

Sheli Z. Rosenberg, Chair

C. David Brown II

David W. Dorman

Jean-Pierre Millon

Terrence Murray

C.A. Lance Piccolo

The Management Planning and Development Committee met five times during 2009. Each member of the Committee is independent of the Company and management under the standards set forth in the Corporate Governance Rules of the NYSE. No Committee member participates in any of the Company s employee compensation programs and none is a current or former officer or employee of CVS Caremark or its subsidiaries. At its meetings, non-members, such as the CEO, the CFO, the Chief Human Resources Officer, the CLO, other senior human resources and legal officers, or external consultants, may be invited to provide information, respond to questions and provide general staff support. However, no CVS Caremark executive officer is permitted to be present during any discussion of his or her compensation or performance, and the Committee may exercise its prerogative to meet in executive session without non-members.

The Committee s responsibilities are specified in its charter. The charter, as approved by the Board, may be viewed on the Company s website at http://info.cvscaremark.com/investors, and also is available to stockholders without charge upon request to the Company s Corporate Secretary. These responsibilities fall into six broad categories. Pursuant to its charter, the Committee: (i) oversees the Company s compensation and benefits policies and programs generally; (ii) evaluates the performance of designated senior executives, including the CEO, and reviews the Company s management succession plan; (iii) in consultation with the other independent directors of the Company, oversees and sets compensation for the CEO; (iv) oversees and sets compensation for the Company s designated senior executives; (v) reviews and recommends to the Board compensation (including cash and equity-based compensation) for the Company s directors; and (vi) approves the Management Planning and Development Committee Report found on page 35 of this proxy statement. The Committee may delegate its authority relating to employees other than executive officers and directors as it deems appropriate and may also delegate its authority relating to ministerial matters.

The Committee oversaw the performance of a risk assessment of the Company s compensation policies and practices with specific focus on incentive programs across the organization to ascertain any potential material risks that may be created by the compensation programs. The Committee considered the findings of the assessment and concluded that the Company s compensation programs are designed and administered with the appropriate balance of risk and reward in relation to its overall business strategy and do not encourage employees to take unnecessary or excessive risks. For non-executives, incentives represent a small percentage of total compensation so participants would not be rewarded for excessive risk-taking. The exception would be in sales where commission income can represent a significant portion of total compensation. In that case, our assessment looked at the goal setting process. No sales plan participants establish sales goals; sales goals are established by members of management who do not participate in the

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sales commission plans. The assessment also looked at the cost of non-executive incentive plans across the organization and determined it is not material to the Company s financial performance.

A discussion of risk assessment with respect to the executive compensation programs is included in the Compensation Discussion and Analysis section, which begins on page 16.

As provided in its charter, the Committee has the authority to determine the scope of the external compensation consultant s services and may terminate the engagement at any time. The external compensation consultant reports to the Committee Chair. The Committee has retained Mercer, a wholly-owned subsidiary of Marsh & McLennan Companies, Inc. (MMC), to assist the Committee with its responsibilities related to the Company s executive compensation programs. Mercer s fees for executive compensation consulting to the Committee in fiscal year 2009 were $255,424. During fiscal 2009, Mercer:

- Collected, organized and presented quantitative competitive market data for a relevant competitive peer group with respect to executive officers target, annual and long-term compensation levels;
- Reviewed and commented on management recommendations on salary increases, short- and long-term compensation awards and incentive compensation design;
- Developed and delivered an annual Committee briefing on executive compensation legislative and regulatory developments and trends and their implications for CVS Caremark;
- Collected market data and provided recommendations for non-employee director compensation to the Committee for approval by the Board; and
- Conducted an analysis of recoupment practices, including against peer group and general industry trends.

During the fiscal year, the Company decided to retain Mercer and its MMC affiliates to provide services, unrelated to executive compensation, which have been reviewed and approved by the Committee. For example, CVS Caremark s human resources division utilized Mercer on occasion for general human resources and compensation consulting. In 2009, the Company engaged Mercer to collect and organize competitive market data for key non-executive positions. The Company also used other MMC affiliates for services unrelated to executive compensation, including property and casualty insurance brokering and related consulting services, risk management services and bonding services. These other MMC affiliates are separate operating companies of MMC, and the Company has separate relationships with the service teams at each of these operating companies. The aggregate fees paid in 2009 to Mercer and its MMC affiliates for all services unrelated to executive compensation were approximately $2,981,310. With respect to executive compensation services, Mercer has been retained by and answers to the Committee; relationships with the other MMC affiliates are overseen by various management employees of the Company.

The Committee believes that the advice it receives from Mercer is objective and not influenced by the relationship that Mercer and the MMC affiliates might otherwise have with the Company. The Committee and Mercer have policies and procedures in place to preserve the objectivity and integrity of the executive compensation consulting advice, including:

- The consultant receives no incentive or other compensation based on the fees charged to the Company for other services provided by Mercer or any of its affiliates;
- The consultant is not responsible for selling other Mercer or affiliate services to the Company;

- The Committee has the sole authority to retain and terminate the executive compensation consultant;
- The consultant has direct access to the Committee without management involvement;
- While it is necessary for the consultant to interact with management to gather information, the Committee determines if and how the consultant s advice can be shared with management; and
- The Committee may choose to meet with the consultant in executive session, without management present, to discuss recommendations.

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Executive Committee

C. David Brown II

David W. Dorman

Terrence Murray

Thomas M. Ryan

The Executive Committee did not meet in 2009. At all times when the Board is not in session, the Executive Committee may exercise most of the powers of the Board, as permitted by applicable law.

Director Compensation

The Company uses a full retainer approach to compensating its outside directors, which the Management Planning and Development Committee and the Board believe better reflects the ongoing accountabilities of directors. Service on the Board requires directors to commit significant amounts of time to Company matters year-round, not only at meetings. The full-retainer approach also facilitates administration of the directors compensation program. Each non-employee director receives an annual retainer of $260,000. Additional annual retainers are paid as follows: Chairs of the Nominating and Corporate Governance and Management Planning and Development Committees, $10,000 each; Chair of the Audit Committee, $20,000; and Lead Director, $20,000. Each of the retainers is paid semi-annually; at least 75% of each retainer must be paid in shares of Company common stock; directors may elect to receive all of their retainers in stock. The payment of annual and additional retainers in substantially all Company common stock (or fully in Company common stock at a director s election) is consistent with our policy of using equity compensation to better align directors interests with stockholders and enhances the directors ability to meet and continue to comply with the stock ownership guidelines described below. Directors may continue to elect to defer receipt of shares; deferred shares will be credited with dividend equivalents.

All non-employee directors must own a minimum of 10,000 shares of CVS Caremark common stock. Directors must attain this minimum ownership level within five years of being elected to the Board and must retain this minimum ownership level for at least six months after leaving the Board. Each of our directors has attained the minimum ownership level.

Directors are eligible to receive stock options, but typically do not receive them. They do not participate in a pension plan or nonqualified deferred compensation plan with above market earnings. Directors are eligible to participate in the Employee Discount Program and are subject to the same terms of the program as Company employees. Caremark Rx, Inc. had provided medical, dental and prescription drug coverage to its directors and their eligible dependents while the director was serving on its board. Messrs. Banks and Piccolo, who currently serve as directors of the Company, continued their medical and dental coverage through 2009, paying the same premium rates as Company employees. Through 2010, Messrs. Banks and Piccolo are allowed to remain covered under the Company s medical and dental programs, provided they pay the full cost of coverage. After December 31, 2010, they will not be eligible for medical and dental coverage through the Company. The Company has extended to all directors the option to enroll themselves and their eligible dependents in the Company s prescription drug benefit program, paying the same premium rates as employees. If a director retires from the Board with at least five years of service, the Company will allow continued participation in the prescription drug benefit plan, but the director must bear the full cost of the premium.

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The following chart shows amounts paid to each of our non-employee directors in fiscal 2009.

Non-Employee Director Compensation Fiscal Year 2009

Name	Fees Earned and Paid in Cash [1] ($)	Cash Fees Elected to be Paid in Stock [2] ($)	Stock Awards [2] ($)	All Other Compen-sation [3] ($)	Total ($)
Edwin M. Banks	65,000		195,000	11,366	271,366
C. David Brown II		65,000	195,000	1,538	261,538
David W. Dorman	17	67,483	202,500		$176,972

PER SHARE DATA		
Basic earnings per share	$ 1.30	$ 1.78
Diluted earnings per share	$ 1.27	$ 1.74
Weighted average common shares outstanding	95,935,551	99,545,187
Weighted average common shares and common share equivalents outstanding	97,577,029	101,584,662
Dividends paid per share	$ 0.225	$ 0.167

See accompanying notes to the consolidated financial statements.

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

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

See accompanying notes to the consolidated financial statements.

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

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

See accompanying notes to the consolidated financial statements.

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

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

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

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

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

2. BASIS OF PREPARATION AND CONSOLIDATION

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

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates reflected in the Company's financial statements, include, but are not limited to:

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

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

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

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

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

3. NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

4. INVESTMENTS

a) Trading Securities

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

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

Mortgage-backed	1,286,210	1,238,165	1,263,517	1,219,712
Asset-backed	728,874	731,558	670,832	674,505
Total fixed maturity investments	$6,288,897	$6,229,608	$6,069,010	$6,035,240

	March 31, 2015		December 31, 2014	
	Fair Value	Original Cost	Fair Value	Original Cost
Equity securities	$856,652	$798,275	$844,163	$791,206
Other invested assets	792,569	701,637	812,543	725,069
	$1,649,221	$1,499,912	$1,656,706	$1,516,275

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

b) Other Invested Assets

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

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

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

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

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

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

The following describes each investment type:

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

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

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

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

- Real estate funds: Private real estate funds invest directly in commercial real estate (multifamily units, industrial buildings, office spaces and retail stores) and some residential property. Real estate managers have diversified portfolios that generally follow core, core-plus, value-added or opportunistic strategies. These funds cannot be redeemed because the investments include restrictions that do not allow for redemption until termination of the fund.
- Equity long/short funds: In equity long/short funds, managers take long positions in companies they deem to be undervalued and short positions in companies they deem to be overvalued. Long/short managers may invest in countries, regions or sectors and vary by their use of leverage and by their targeted net long position.
- Multi-strategy funds: These funds may utilize many strategies employed by specialized funds including distressed investing, equity long/short, merger arbitrage, convertible arbitrage, fixed income arbitrage and macro trading.
- Relative value credit funds: These funds seek to take exposure to credit-sensitive securities, long and/or short, based upon credit analysis of issuers and securities and credit market views.
- High yield loan fund: A long-only private mutual fund that invests in high yield fixed income securities.
- Other private securities: These securities mostly include strategic non-controlling minority investments in private asset management companies and other insurance related investments that are accounted for using the equity method of accounting.

c) Net Investment Income

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

d) Components of Realized Gains and Losses

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

e) Pledged Assets

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

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

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

5. DERIVATIVE INSTRUMENTS

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

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

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

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

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

Derivative Instruments Not Designated as Hedging Instruments

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

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

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

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

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

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

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

- Level 1: Observable inputs to the valuation methodology that are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: Observable inputs to the valuation methodology other than quoted market prices (unadjusted) for identical assets or liabilities in active markets. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical assets in markets that are not active and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology that are unobservable for the asset or liability.

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

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

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

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

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

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

Recurring Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

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

Non-recurring Fair Value of Financial Instruments

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

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

Goodwill and intangible assets: The Company tests goodwill and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, but at least annually for goodwill and indefinite-lived intangibles. If the Company determines that goodwill and intangible assets may be impaired, the Company uses techniques, including discounted expected future cash flows and market multiple models, to measure fair value.

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Rollforward of Level 3 Financial Instruments

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

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

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

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

The Company's external investment accounting service provider receives prices from internationally recognized independent pricing services to measure the fair values of its fixed maturity investments. Pricing sources are evaluated and selected in a manner to ensure that the most reliable sources are used. The Company uses a pricing service ranking to consistently select the most appropriate pricing service in instances where it receives multiple quotes on the same security. The Company obtains multiple quotes for the majority of its securities. The independent pricing sources obtain market quotations and actual transaction prices for securities that have quoted prices in active markets. Each pricing service has its own proprietary method for determining the fair value of securities that are not actively traded. In general, these methods involve the use of “matrix pricing” in which the independent pricing service uses observable market inputs, including, but not limited to, reported trades, benchmark yields, broker-dealer quotes, interest rates, prepayment speeds, default rates and such other inputs as are available from market sources to determine a reasonable fair value.

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

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

7. RESERVE FOR LOSSES AND LOSS EXPENSES

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

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

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

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

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

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

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

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

8. INCOME TAXES

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

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

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

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

9. SHAREHOLDERS' EQUITY

a) Authorized shares

The issued share capital consists of the following:

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

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

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

b) Dividends

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

Dividend Paid	Dividend Per Share	Total Amount Paid
January 2, 2015	$0.225	$21,669

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

c) Share Repurchases

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

The Company’s share repurchases were as follows:

Three Months Ended
March 31,

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

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10. EMPLOYEE BENEFIT PLANS

a) Restricted stock units and performance-based equity awards

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

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

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

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

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

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

b) Cash-equivalent stock awards

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

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

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

c) Total Stock Related Compensation Expense

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

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

11. EARNINGS PER SHARE

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

	Three Months Ended March 31, 2015	2014
Basic earnings per share:		
Net income	$124,356	$176,972
Weighted average common shares outstanding	95,935,551	99,545,187
Basic earnings per share	$1.30	$1.78

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

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

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

12. SEGMENT INFORMATION

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

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

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

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

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The following tables provide a summary of the segment results:

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

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

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

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

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

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

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

13. COMMITMENTS AND CONTINGENCIES

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

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14. CONDENSED CONSOLIDATED GUARANTOR FINANCIAL STATEMENTS

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

Unaudited Condensed Consolidating Balance Sheet:

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

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

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Unaudited Condensed Consolidating Statement of Operations and Comprehensive Income:

Three Months Ended March 31, 2015	Allied World Switzerland (Parent Guarantor)	Allied World Bermuda (Subsidiary Issuer)	Other Allied World Subsidiaries	Consolidating Adjustments	Allied World Switzerland Consolidated
Net premiums earned	$—	$—	$568,548	$—	$568,548
Net investment income	2	—	44,549	—	44,551
Net realized investment losses	—	—	45,025	—	45,025
Other income	—	—	854	—	854
Net losses and loss expenses	—	—	(325,176)	—	(325,176)
Acquisition costs	—	—	(78,699)	—	(78,699)
General and administrative expenses	(9,462)	240	(87,916)	—	(97,138)
Other expense	—	—	(1,823)	—	(1,823)
Amortization of intangible assets	—	—	(633)	—	(633)
Interest expense	—	(13,866)	(471)	—	(14,337)
Foreign exchange gain (loss)	5	10	(9,912)	—	(9,897)
Income tax (expense) benefit	(639)	—	(6,280)	—	(6,919)
Equity in earnings of consolidated subsidiaries	134,450	143,696	—	(278,146)	—
NET INCOME (LOSS)	$124,356	$130,080	$148,066	$(278,146)	$124,356
Other comprehensive income	—	—	—	—	—
COMPREHENSIVE INCOME (LOSS)	$124,356	$130,080	$148,066	$(278,146)	$124,356

Three Months Ended March 31, 2014	Allied World Switzerland (Parent Guarantor)	Allied World Bermuda (Subsidiary Issuer)	Other Allied World Subsidiaries	Consolidating Adjustments	Allied World Switzerland Consolidated
Net premiums earned	$—	$—	$530,285	$—	$530,285
Net investment income	2	—	47,617	—	47,619
Net realized investment gains	—	—	54,205	—	54,205
Other income	—	—	—	—	—
Net losses and loss expenses	—	—	(275,286)	—	(275,286)
Acquisition costs	—	—	(67,722)	—	(67,722)
General and administrative expenses	(8,914)	(2,391)	(69,035)	—	(80,340)
Other expense	—	—	—	—	—
Amortization of intangible assets	—	—	(633)	—	(633)
Interest expense	—	(13,848)	(686)	—	(14,534)
Foreign exchange gain (loss)	(2)	33	(80)	—	(49)
Income tax (expense) benefit	(409)	—	(16,164)	—	(16,573)
Equity in earnings of consolidated subsidiaries	186,295	199,007	—	(385,302)	—
NET INCOME (LOSS)	$176,972	$182,801	$202,501	$(385,302)	$176,972
Other comprehensive income	—	—	—	—	—
COMPREHENSIVE INCOME (LOSS)	$176,972	$182,801	$202,501	$(385,302)	$176,972

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Unaudited Condensed Consolidating Statement of Cash Flows:

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

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

Notes to Parent Company Condensed Financial Information

a) Dividends

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

15. SUBSEQUENT EVENTS

On April 1, 2015, the Company completed its acquisitions of the Hong Kong and Singapore operations of Royal & Sun Alliance Insurance plc ("RSA") for approximately $192,692, subject to post-closing adjustments. In addition to the purchase price, the Company contributed an additional $90,000 to capitalize the businesses on an ongoing basis. Completion of the valuation of the assets acquired and liabilities assumed is currently in process, in particular related to insurance-related contract intangibles and other intangibles acquired. The required disclosures related to this acquisition will be provided upon the completion of the valuation of the assets acquired and liabilities assumed in the second quarter of 2015. In addition, the Company has entered into a contract to acquire the Labuan operations of RSA for one British pound sterling. This transaction is expected to close in the second quarter of 2015.

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

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

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

Note on Forward-Looking Statement

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

Overview

Our Business

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

During the three months ended March 31, 2015, we continued to grow our insurance business (the North American Insurance segment and Global Markets Insurance segment), but also selectively entered into reinsurance treaties. For the insurance operations, we continued to add scale to our existing lines of business and build-out our less mature lines of business. We did however experience negative rate changes in certain lines of business such as general property and healthcare. For our Reinsurance segment, we are experiencing unfavorable market conditions in terms of pricing, terms and conditions, and either did not renew or renewed at lower line sizes on several treaties in response to these market conditions. We expect this trend to continue in the near-term. As a result, our consolidated gross premiums written decreased by $20.8 million, or 2.3%, for the three months ended March 31, 2015 compared to the three months ended March 31, 2014. Overall our combined ratio is higher by 8.2 percentage points, driven by higher current year losses incurred and higher stock-based compensation expense.

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

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Recent Developments

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

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

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

Financial Highlights

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

Non-GAAP Financial Measures

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

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Operating income and operating income per share

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

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

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

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Diluted book value per share

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

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

Annualized return on average equity

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

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

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

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Relevant Factors

Revenues

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

Expenses

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

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

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

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

Ratios

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

Critical Accounting Policies

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

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

Results of Operations

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

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

Comparison of Three Months Ended March 31, 2015 and 2014

Premiums

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

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

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

- Global Markets Insurance: Gross premiums written increased by $2.2 million, or 3.8%. Assuming constant foreign exchange rates, gross premiums written increased by 11.9%. The increase was primarily due to new business written driven by new lines of business such as onshore construction and marine. This growth was partially offset by the non-renewal of business, particularly in our healthcare line of business; and
- Reinsurance: Gross premiums written decreased by $57.8 million, or 11.6%. The decrease was primarily due to non-renewals of certain treaties, across all lines of business, either due to poor terms and conditions or cedents retaining more of their own business, and lower premiums on renewed treaties mainly due to our assuming a lower percentage of the premiums than in the prior period. These reductions were partially offset by new business written.

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

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

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

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

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

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

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

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Net Investment Income

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

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

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

Realized Investment Gains

Net realized investment gains were comprised of the following:

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

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

Other Income

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

Net Losses and Loss Expenses

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

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

(1) "NPE" means net premiums earned.

Current year non-catastrophe losses and loss expenses

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

Current year property catastrophe losses and loss expenses

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

Prior year losses and loss expenses

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

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

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

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

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

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

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

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

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

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

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

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Acquisition Costs

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

General and Administrative Expenses

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

Other Expense

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

Amortization of Intangible Assets

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

Interest Expense

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

Foreign Exchange Loss

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

Income Tax Expense

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

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

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Net Income

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

Underwriting Results by Operating Segments

Our company is organized into three operating segments:

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

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

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

North American Insurance Segment

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

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

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

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Comparison of Three Months Ended March 31, 2015 and 2014

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

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

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

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

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

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

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

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

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

Current year non-catastrophe losses and loss expenses

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

Current year property catastrophe losses and loss expenses

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

Prior year losses and loss expenses

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

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

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

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	(Favorable) and Unfavorable Loss Reserve Development by Loss Year For the Three Months Ended March 31, 2014						
	2008 and Prior	2009	2010	2011	2012	2013	Total
	($ in millions)						
General casualty	$(4.3)	$(0.2)	$(3.9)	$2.1	$—	$—	$(6.3)
Programs	2.6	(3.0)	—	(1.0)	(0.2)	—	(1.6)
General property	(0.2)	(0.5)	0.6	(2.0)	(0.8)	(2.8)	(5.7)
Healthcare	(4.0)	2.0	—	4.3	1.8	16.0	20.1
Professional liability	(14.0)	(1.7)	—	(0.5)	(1.2)	—	(17.4)
Other	—	—	—	(0.3)	(0.3)	—	(0.6)
	$(19.9)	$(3.4)	$(3.3)	$2.6	$(0.7)	$13.2	$(11.5)

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

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

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

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

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Global Markets Insurance Segment

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

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

Comparison of Three Months Ended March 31, 2015 and 2014

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

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

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

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

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

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

* Includes our marine and onshore construction lines of business.

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

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

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

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

Current year non-catastrophe losses and loss expenses

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

Current year property catastrophe losses and loss expenses

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

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Prior year losses and loss expenses

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

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

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

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

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

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

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

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Reinsurance Segment

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

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

Comparison of Three Months Ended March 31, 2015 and 2014

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

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

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

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

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

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

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

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

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

Current year non-catastrophe losses and loss expenses

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

Current year property catastrophe losses and loss expenses

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

Prior year losses and loss expenses

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

	(Favorable) and Unfavorable Loss Reserve Development by Loss Year						
	For the Three Months Ended March 31, 2015						
	2009 and Prior	2010	2011	2012	2013	2014	Total
	($ in millions)						
Property	$(1.3)	$(0.1)	$0.2	$(0.6)	$(0.7)	$(11.3)	$(13.8)
Casualty	(10.7)	(7.6)	(0.7)	1.7	3.3	0.5	(13.5)
Specialty	(0.1)	—	—	(0.1)	(0.3)	4.6	4.1
	$(12.1)	$(7.7)	$(0.5)	$1.0	$2.3	$(6.2)	$(23.2)

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

	(Favorable) and Unfavorable Loss Reserve Development by Loss Year						
	For the Three Months Ended March 31, 2014						
	2008 and Prior	2009	2010	2011	2012	2013	Total
	($ in millions)						
Property	$(0.6)	$(0.1)	$0.6	$(0.7)	$(1.7)	$(13.7)	$(16.2)
Casualty	(5.4)	0.2	0.8	0.9	0.7	2.2	(0.6)
Specialty	0.2	0.1	0.1	—	(1.1)	(2.8)	(3.5)
	$(5.8)	$0.2	$1.5	$0.2	$(2.1)	$(14.3)	$(20.3)

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

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

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

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Reserves for Losses and Loss Expenses

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

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

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

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

	Reserve for Losses and Loss Expenses Gross of Reinsurance Recoverable		
	Carried Reserves	Low Estimate	High Estimate
	($ in millions)		
North American Insurance	$3,806.4	$3,008.7	$4,197.9
Global Markets Insurance	581.4	472.8	637.7
Reinsurance	1,517.3	1,212.8	1,696.7
Consolidated (1)	5,905.1	4,785.5	6,441.2

	Reserve for Losses and Loss Expenses Net of Reinsurance Recoverable		
	Carried Reserves	Low Estimate	High Estimate
	($ in millions)		
North American Insurance	$2,650.8	$2,106.3	$2,978.9
Global Markets Insurance	398.2	327.9	438.6
Reinsurance	1,505.8	1,205.2	1,684.9
Consolidated (1)	4,554.8	3,719.4	5,022.4

(1)

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

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

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

Reinsurance Recoverable

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

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

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

Liquidity and Capital Resources

Liquidity

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

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

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

Historically, our operating subsidiaries have generated sufficient cash flows to meet all of their obligations. Because of the inherent volatility of our business, the seasonality in the timing of payments by insureds and cedents, the irregular timing of loss payments, and the impact of a change in interest rates and credit spreads on the investment income as well as seasonality in coupon payment dates for fixed income securities, cash flows from operating activities may vary between periods. In the unlikely event that paid losses exceed operating cash flows in any given period, we would use our cash balances available, liquidate a portion of our investment portfolio or borrow under our revolving loan facility (see "Credit Facilities" below) in order to meet our short-term liquidity needs.

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

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

Dividend Restrictions

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

Cash Flows

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

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

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

Investments

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

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

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

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

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

Credit Facilities

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

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

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

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

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

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

Pledged Assets

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

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

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

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

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

Financial Strength Ratings

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

Capital Resources

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

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

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

Share Repurchases

On May 1, 2014, our shareholders approved a share repurchase program in order for us to repurchase up to $500.0 million of our common shares. Under the terms of this share repurchase program, the first three million of common shares repurchased will remain in treasury and will be used by us to satisfy share delivery obligations under our equity-based compensation plans. Any additional common shares will be designated for cancellation at acquisition and will be canceled upon shareholder approval. As of March 31, 2015, approximately $367.4 million remained under this share repurchase authorization.

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

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

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

Long-Term Debt

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

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

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

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

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

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

In the table below changes in fair values as a result of changes in interest rates are determined by calculating hypothetical March 31, 2015 ending prices based on yields adjusted to reflect the hypothetical changes in interest rates, comparing such hypothetical ending prices to actual ending prices, and multiplying the difference by the principal amount of the security. The sensitivity analysis is based on estimates. The estimated changes of our fixed maturity investments and cash and cash equivalents are presented below and actual changes for interest rate shifts could differ significantly.

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

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

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

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

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

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

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

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

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

As of March 31, 2015, we held investments in "other invested assets" with a carrying value of $926.4 million. Included in other invested assets are private equity funds, hedge funds, other private securities and a high yield loan fund. Investments in these types of assets involve certain risks related to, among other things, the illiquid nature of the fund shares,

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

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

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

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

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

Item 4. Controls and Procedures.

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

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

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

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

PART II
OTHER INFORMATION
Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

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

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

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

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

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

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Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

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Item 6. Exhibits.

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

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

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

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

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

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SIGNATURES

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

	ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG
Dated: April 22, 2015	
	By: /s/ Scott A. Carmilani
	Name: Scott A. Carmilani
	Title: President and Chief Executive Officer
Dated: April 22, 2015	
	By: /s/ Thomas A. Bradley
	Name: Thomas A. Bradley
	Title: Executive Vice President and Chief Financial Officer
Dated: April 22, 2015	
	By: /s/ Kent W. Ziegler
	Name: Kent W. Ziegler
	Title: Senior Vice President, Finance and Chief Accounting Officer

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