

Allied World Assurance Co Holdings, AG  
Form 10-Q  
April 22, 2015  
Table of Contents

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

Form 10-Q  
(Mark One)

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

For the quarterly period ended: March 31, 2015

OR

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

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

Commission file number: 001-32938

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG

(Exact Name of Registrant as Specified in Its Charter)

Switzerland

98-0681223

(State or Other Jurisdiction of

(I.R.S. Employer

Incorporation or Organization)

Identification No.)

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

(Address of Principal Executive Offices and Zip Code)

41-41-768-1080

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

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



Table of Contents

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

Item 1.	<u>Financial Statements</u>	<u>1</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>55</u>
Item 4.	<u>Controls and Procedures</u>	<u>58</u>

PART II OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	<u>59</u>
Item 1A.	<u>Risk Factors</u>	<u>59</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>60</u>
Item 3.	<u>Defaults Upon Senior Securities</u>	<u>61</u>
Item 4.	<u>Mine Safety Disclosures</u>	<u>61</u>
Item 5.	<u>Other Information</u>	<u>61</u>
Item 6.	<u>Exhibits</u>	<u>62</u>

<u>SIGNATURES</u>	<u>63</u>
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EXHIBIT INDEX

Table of Contents

## PART I

## FINANCIAL INFORMATION

## Item 1. Financial Statements.

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

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

Total liabilities and shareholders' equity	\$12,617,786	\$12,421,563
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See accompanying notes to the consolidated financial statements.

1

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Table of Contents

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

for the three months ended March 31, 2015 and 2014

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

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

Table of Contents

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.

Table of Contents

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





Table of Contents

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.

Table of ContentsALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

**3. NEW ACCOUNTING PRONOUNCEMENTS**

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

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

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

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

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

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

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

6

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Table of Contents

## ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

## b) Other Invested Assets

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

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

Table of Contents

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					