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

Form 10-Q
(Mark One)

þ 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 Incorporation or Organization)	(I.R.S. Employer 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 þ 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 þ 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 þ	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 þ

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

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PART I
FINANCIAL INFORMATION
Item 1. Financial Statements.
ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
as of March 31, 2015 and December 31, 2014
(Expressed in thousands, except share and per share amounts)

	As of March 31, 2015	As of December 31, 2014
ASSETS:		
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
LIABILITIES:		
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		
SHAREHOLDERS' EQUITY:		
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

See accompanying notes to the consolidated financial statements.

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ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME
for the three months ended March 31, 2015 and 2014
(Expressed in thousands, except share and per share amounts)

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

See accompanying notes to the consolidated financial statements.

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

	Share 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.

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

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(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.

(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 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.

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

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 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:

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

c) Total Stock Related Compensation Expense

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

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

11. EARNINGS PER SHARE

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

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

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

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

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

The following tables provide a summary of the segment results:

Three Months Ended March 31, 2015	North American Insurance	Global Markets Insurance