

Edgar Filing: Allied World Assurance Co Holdings, AG - Form 10-Q

Allied World Assurance Co Holdings, AG  
Form 10-Q  
October 31, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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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: September 30, 2016

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 October 24, 2016, 86,998,341 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 September 30, 2016 and December 31, 2015

(Expressed in millions of United States dollars, except share and per share amounts)

	September 30, 2016	December 31, 2015
<b>ASSETS:</b>		
Fixed maturity investments trading, at fair value (amortized cost: 2016: \$7,311.5; 2015: \$7,290.6)	\$ 7,327.3	\$ 7,201.5
Equity securities trading, at fair value (cost: 2016: \$208.0; 2015: \$395.3)	216.1	403.0
Other invested assets	941.7	966.7
Total investments	8,485.1	8,571.2
Cash and cash equivalents	773.8	608.0
Restricted cash	98.9	60.6
Insurance balances receivable	893.3	745.9
Funds held	263.9	640.8
Prepaid reinsurance	448.7	392.3
Reinsurance recoverable	1,550.7	1,480.0
Reinsurance recoverable on paid losses	129.1	96.4
Accrued investment income	37.2	38.3
Net deferred acquisition costs	157.7	165.2
Goodwill	392.8	388.1
Intangible assets	111.1	116.6
Balances receivable on sale of investments	20.3	36.9
Net deferred tax assets	26.3	24.4
Other assets	153.5	147.2
Total assets	\$ 13,542.4	\$ 13,511.9
<b>LIABILITIES:</b>		
Reserve for losses and loss expenses	\$ 6,665.8	\$ 6,456.2
Unearned premiums	1,785.2	1,683.3
Reinsurance balances payable	258.4	214.4
Balances due on purchases of investments	242.4	125.1
Senior notes:		
Principal amount	800.0	1,300.0
Less unamortized discount and debt issuance costs	6.0	7.1
Senior notes, net of unamortized discount and debt issuance costs	794.0	1,292.9
Other long-term debt	23.3	23.0
Accounts payable and accrued liabilities	157.4	184.5
Total liabilities	\$ 9,926.5	\$ 9,979.4
<b>SHAREHOLDERS' EQUITY:</b>		
Common shares: 2016 and 2015: par value CHF 4.10 per share (2016: 93,586,418; 2015: 95,523,230 shares issued and 2016: 86,974,284; 2015: 90,959,635 shares outstanding)	\$ 378.8	\$ 386.7
Treasury shares, at cost (2016: 6,612,134; 2015: 4,563,595)	(237.0)	(155.1)
Accumulated other comprehensive loss	(5.4)	(9.3)
Retained earnings	3,479.5	3,310.2
Total shareholders' equity	3,615.9	3,532.5

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Total liabilities and shareholders' equity	\$ 13,542.4	\$ 13,511.9
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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 and nine months ended September 30, 2016 and 2015

(Expressed in millions of United States dollars, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
<b>REVENUES:</b>				
Gross premiums written	\$730.2	\$ 754.1	\$2,394.1	\$ 2,460.6
Premiums ceded	(201.9 )	(147.1 )	(583.6 )	(477.4 )
Net premiums written	528.3	607.0	1,810.5	1,983.2
Change in unearned premiums	55.7	43.7	(43.4 )	(117.6 )
Net premiums earned	584.0	650.7	1,767.1	1,865.6
Net investment income	50.6	45.7	159.7	133.0
Net realized investment gains (losses)	10.7	(113.6 )	104.0	(88.8 )
Other income	1.8	0.7	7.6	2.5
Total revenue	647.1	583.5	2,038.4	1,912.3
<b>EXPENSES:</b>				
Net losses and loss expenses	376.3	416.9	1,114.1	1,173.6
Acquisition costs	82.0	100.1	257.7	279.4
General and administrative expenses	104.2	105.8	305.3	311.3
Other expense	2.2	1.3	5.0	4.3
Amortization of intangible assets	2.5	2.6	7.5	6.1
Interest expense	13.5	14.5	53.3	43.2
Foreign exchange loss (gain)	1.0	(0.8 )	(4.9 )	10.4
Total expenses	581.7	640.4	1,738.0	1,828.3
Income (loss) before income taxes	65.4	(56.9 )	300.4	84.0
Income tax (benefit) expense	(3.2 )	(5.3 )	4.3	1.8
NET INCOME (LOSS)	68.6	(51.6 )	296.1	82.2
Other comprehensive gain (loss): foreign currency translation adjustment	0.6	(1.0 )	3.9	(4.3 )
COMPREHENSIVE INCOME (LOSS)	\$69.2	\$ (52.6 )	\$300.0	\$ 77.9
<b>PER SHARE DATA</b>				
Basic earnings (loss) per share	\$0.79	\$ (0.57 )	\$3.34	\$ 0.88
Diluted earnings (loss) per share	\$0.77	\$ (0.57 )	\$3.29	\$ 0.87
Weighted average common shares outstanding	87,102,290	90,882,511	88,691,983	93,068,088
Weighted average common shares and common share equivalents outstanding	88,603,100	90,882,511	90,113,606	94,724,980
Dividends paid per share	\$0.26	\$ 0.26	\$0.78	\$ 0.71

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 nine months ended September 30, 2016 and 2015  
 (Expressed in millions of United States dollars)

	Share Capital	Treasury Shares	Accumulated Other Comprehensive Loss	Retained Earnings	Total
December 31, 2015	\$386.7	\$(155.1)	\$ (9.3 )	\$3,310.2	\$3,532.5
Net income	—	—	—	296.1	296.1
Dividends	—	—	—	(68.8 )	(68.8 )
Stock compensation	—	17.6	—	0.8	18.4
Share repurchases	—	(166.2 )	—	—	(166.2 )
Shares canceled	(7.9 )	66.7	—	(58.8 )	—
Foreign currency translation adjustment	—	—	3.9	—	3.9
September 30, 2016	\$378.8	\$(237.0)	\$ (5.4 )	\$3,479.5	\$3,615.9
December 31, 2014	\$408.0	\$(143.1)	\$ —	\$3,513.4	\$3,778.3
Net income	—	—	—	82.2	82.2
Dividends	—	—	—	(68.8 )	(68.8 )
Stock compensation	—	18.4	—	(5.1 )	13.3
Share repurchases	—	(245.3 )	—	—	(245.3 )
Shares canceled	(21.3 )	213.7	—	(192.4 )	—
Foreign currency translation adjustment	—	—	(4.3 )	—	(4.3 )
September 30, 2015	\$386.7	\$(156.3)	\$ (4.3 )	\$3,329.3	\$3,555.4

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 nine months ended September 30, 2016 and 2015  
 (Expressed in millions of United States dollars)

	Nine Months Ended September 30, 2016    2015	
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:</b>		
Net income	\$296.1	\$82.2
Adjustments to reconcile net income to cash provided by operating activities:		
Net realized gains on sales of investments	(37.7 )	(41.2 )
Mark to market adjustments	(91.1 )	112.4
Stock compensation expense	13.4	11.8
Undistributed income of equity method investments	22.2	19.2
Changes in:		
Reserve for losses and loss expenses, net of reinsurance recoverables	138.9	188.8
Unearned premiums, net of prepaid reinsurance	45.5	113.4
Insurance balances receivable	(148.8 )	(123.2 )
Funds held	376.9	280.4
Reinsurance balances payable	44.1	40.4
Reinsurance recoverable on paid losses	(32.6 )	(31.0 )
Net deferred acquisition costs	7.5	(10.9 )
Net deferred tax assets	(1.9 )	(10.1 )
Accounts payable and accrued liabilities	(28.2 )	(39.0 )
Other items, net	15.2	(1.7 )
Net cash provided by operating activities	619.5	591.5
<b>CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:</b>		
Purchases of trading securities	(4,322.6 )	(3,962.3 )
Purchases of other invested assets	(58.5 )	(110.9 )
Sales of trading securities	4,595.8	3,888.4
Sales of other invested assets	99.2	160.3
Purchases of fixed assets	(3.1 )	(23.8 )
Change in restricted cash	(38.2 )	(78.9 )
Net cash paid for acquisitions	(1.2 )	(141.5 )
Net cash provided by (used in) investing activities	271.4	(268.7 )
<b>CASH FLOWS USED IN FINANCING ACTIVITIES:</b>		
Dividends paid	(68.8 )	(66.8 )
Proceeds from the exercise of stock options	7.7	9.2
Repayment of senior notes	(500.0 )	—
Share repurchases	(165.7 )	(246.4 )
Proceeds from other long-term debt	—	4.0
Repayment of other long-term debt	(0.2 )	(0.2 )
Net cash used in financing activities	(727.0 )	(300.2 )
Effect of exchange rate changes on foreign currency cash	1.9	(8.1 )



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NET INCREASE IN CASH AND CASH EQUIVALENTS	165.8	14.5
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	608.0	589.3
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$773.8	\$603.8

Supplemental disclosure of cash flow information:

Cash paid for income taxes	\$2.3	\$2.2
Cash paid for interest expense	\$56.6	\$45.8

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 millions of United States dollars, 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. References to “\$” are to the lawful currency of the United States and to “CHF” are to the lawful currency of Switzerland.

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. To facilitate comparison of information across periods, certain reclassifications have been made to prior year amounts to conform to the current year's presentation.

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, 2015.

3. NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“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. With the issuance of Accounting Standards Update 2015-14, "Revenue from Contracts with Customers (Topic 606) - Deferral of the Effective Date", this standard will be effective on January 1, 2018 with retrospective adoption required for the comparative periods. The Company is currently assessing the impact the adoption of ASU 2014-09 will have on future financial statements and related disclosures.

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ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

In May 2015, the FASB issued Accounting Standards Update 2015-09, "Financial Services - Insurance (Topic 944): Disclosures about Short-Duration Contracts" ("ASU 2015-09"). ASU 2015-09 provides enhanced disclosures, on an annual basis, related to the reserve for losses and loss expenses. The enhanced disclosures required by ASU 2015-09 include (1) net incurred and paid claims development information by accident year, (2) a reconciliation of incurred and paid claims development information to the aggregate carrying amount of the reserve for losses and loss expenses, (3) for each accident year presented of incurred claims development information, the total of reserves for losses incurred but not reported ("IBNR"), including expected development on reported claims, included in the reserve for losses and loss expenses and a description of the reserving methodologies and changes to the reserving methodologies, and (4) for each accident year presented of incurred claims development information, quantitative information about claims frequency, as well as a description of methodologies used for determining claim frequency information. ASU 2015-09 is effective for annual periods beginning after December 15, 2015, and as such the disclosures will first be presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. The Company is currently preparing the disclosures required by ASU 2015-09.

In January 2016, the FASB issued Accounting Standards Update 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). ASU 2016-01 changes current U.S. GAAP for public entities by requiring the following, among others: (1) equity securities, except those accounted for under the equity method of accounting, to be measured at fair value with changes in fair value recognized in net income; (2) the use of the exit price when measuring fair value of financial instruments for disclosure purposes; (3) an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value; and (4) separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or notes to the financial statements. ASU 2016-01 is effective for annual periods beginning after January 1, 2018, including interim periods. Early application is permitted. The Company is currently assessing the impact the adoption of ASU 2016-01 will have on future financial statements and disclosures.

In February 2016, the FASB issued Accounting Standards Update 2016-02, "Leases" ("ASU 2016-02"). ASU 2016-02 changes current U.S. GAAP for lessees to recognize lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous GAAP. ASU 2016-02 is effective for annual periods beginning after January 1, 2019, including interim periods. Early application is permitted. The Company is currently assessing the impact the adoption of ASU 2016-02 will have on future financial statements and disclosures.

In March 2016, the FASB issued Accounting Standards Update 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). ASU 2016-09 modifies U.S. GAAP by requiring the following, among others: (1) all excess tax benefits and tax deficiencies are to be recognized as income tax expense or benefit on the income statement (excess tax benefits are recognized regardless of whether the benefit reduces taxes payable in the current period); (2) excess tax benefits are to be classified along with other income tax cash flows as an operating activity in the statement of cash flows; (3) in the area of forfeitures, an entity can still follow the current U.S. GAAP practice of making an entity-wide accounting policy election to estimate the number of awards that are expected to vest or may instead account for forfeitures when they occur; and (4) classification as a financing activity in the statement of cash flows of cash paid by an employer to the taxing authorities when directly withholding shares for tax withholding purposes. ASU 2016-09 is effective for annual periods beginning after January 1, 2017, including interim periods. Although early adoption is permitted, the Company will not early adopt ASU 2016-09. The Company is currently assessing the impact the adoption of ASU 2016-09 will have on future financial statements and disclosures.

In June 2016, the FASB issued Accounting Standards Update 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). ASU 2016-13 modifies U.S. GAAP

related to the recognition of credit losses by replacing the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 would apply to financial assets such as loans, debt securities, trade receivables, off-balance sheet credit exposures, reinsurance receivables, and other financial assets that have the contractual right to receive cash. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. The Company's invested assets are measured at fair value through net income, and therefore those invested assets would not be impacted by the adoption of ASU 2016-13. The Company has other financial assets, such as reinsurance receivables, that could be impacted by the adoption of ASU 2016-13. ASU 2016-13 is effective for annual periods beginning after January 1, 2020, including interim periods. The Company is currently assessing the impact the adoption of ASU 2016-13 will have on future financial statements and disclosures.

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## ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

In August 2016, the FASB issued Accounting Standards Update 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”). ASU 2016-15 clarifies the classification of receipts and payments in the statement of cash flows. ASU 2016-15 provides guidance related to (1) settlement and payment of zero coupon debt instruments, (2) contingent consideration, (3) proceeds from settlement of insurance claims, (4) proceeds from settlement of corporate and bank owned life insurance policies, (5) distributions from equity method investees, (6) cash receipts from beneficial interests obtained by a transferor, and (7) general guidelines for cash receipts and payments that have more than one aspect of classification. ASU 2016-15 is effective for annual periods beginning after December 15, 2017, including interim periods. Early adoption is permitted. The Company is currently assessing the impact the adoption of ASU 2016-15 will have on future financial statements and 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 (the “consolidated income statements”) by category are as follows:

	September 30, 2016		December 31, 2015	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
U.S. government and government agencies	\$1,471.2	\$ 1,466.1	\$1,434.0	\$ 1,438.0
Non-U.S. government and government agencies	488.1	498.2	556.8	579.2
States, municipalities and political subdivisions	480.8	460.3	413.5	396.0
Corporate debt:				
Financial institutions	1,084.2	1,066.8	1,275.4	1,277.3
Industrials	1,372.5	1,353.5	1,308.1	1,345.6
Utilities	138.4	136.2	118.9	125.4
Mortgage-backed				
Agency mortgage-backed	845.9	831.0	751.8	745.5
Non-agency residential mortgage-backed	22.6	21.5	34.0	32.4
Commercial mortgage-backed	631.8	671.3	582.8	600.1
Asset-backed	791.8	806.6	726.2	751.1
Total fixed maturity investments	\$7,327.3	\$ 7,311.5	\$7,201.5	\$ 7,290.6
	September 30, 2016		December 31, 2015	
	Fair Value	Original Cost	Fair Value	Original Cost
Equity securities	\$216.1	\$ 208.0	\$403.0	\$ 395.3
Other invested assets	827.1	770.7	840.2	770.9
	\$1,043.2	\$ 978.7	\$1,243.2	\$ 1,166.2

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 excludes other private securities described below in Note 4(b) that are accounted for using the equity method of accounting.

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## ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

## b) Other Invested Assets

Details regarding the carrying value, redemption characteristics and unfunded investment commitments of the other invested assets portfolio as of September 30, 2016 and December 31, 2015 were as follows:

Investment Type	Carrying Value as of September 30, 2016	Investments with Redemption Restrictions	Estimated Remaining Restriction Period	Investments without Redemption Restrictions	Redemption Frequency <sup>(1)</sup>	Redemption Notice Period <sup>(1)</sup>	Unfunded Commitments
Private equity	\$ 248.1	\$ 248.1	1 - 7 Years	\$ —			\$ 221.8
Levered credit	221.0	221.0	4 - 8 Years	—			195.1
Real estate	21.4	21.4	7 - 9 Years	—			189.3
Distressed	5.1	5.1	2 Years	—			3.8
Total private equity	495.6	495.6		—			610.0
Distressed	173.9	—		173.9	Monthly	90 Days	—
Relative value credit	82.6	—		82.6	Quarterly	60 Days	—
Equity long/short	64.8	—		64.8	Quarterly	45 Days	—
Fund of funds	10.2	—		10.2	Annual	60 Days	—
Total hedge funds	331.5	—		331.5			—
Total other invested assets at fair value	827.1	495.6		331.5			610.0
Other private securities	114.6	—		114.6			—
Total other invested assets	\$ 941.7	\$ 495.6		\$ 446.1			\$ 610.0
Investment Type	Carrying Value as of December 31, 2015	Investments with Redemption Restrictions	Estimated Remaining Restriction Period	Investments without Redemption Restrictions	Redemption Frequency <sup>(1)</sup>	Redemption Notice Period <sup>(1)</sup>	Unfunded Commitments
Private equity	\$ 236.4	\$ 236.4	1 - 7 Years	\$ —			\$ 231.0
Levered credit	205.9	205.9	4 - 8 Years	—			179.0
Distressed	5.1	5.1	2 Years	—			3.8
Real estate	—	—	7 - 9 Years	—			200.0
Total private equity	447.4	447.4		—			613.8
Distressed	215.6	54.6	2 Years	161.0	Monthly	90 Days	—
Equity long/short	58.0	—		58.0	Quarterly	45 Days	—
Relative value credit	105.4	—		105.4	Quarterly	60 Days	—
Total hedge funds	379.0	54.6		324.4			—
High yield loan fund	13.8	—		13.8	Monthly	30 Days	—
Total other invested assets at fair value	840.2	502.0		338.2			613.8
Other private securities	126.5	—		126.5			—
Total other invested assets	\$ 966.7	\$ 502.0		\$ 464.7			\$ 613.8

(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



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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 if 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 (primary and secondary):** Primary equity funds include funds that may invest in companies and general partnership interests, as well as direct investments. Secondary funds buy limited partnership interests from existing limited partners of primary private equity funds. As owners of private equity, funds may seek liquidity by selling their existing interests, 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 funds.

**Levered credit (including mezzanine debt):** Levered credit funds invest across the capital structures of upper middle market and middle market companies in connection with leveraged buyouts, mergers and acquisitions, recapitalizations, growth financings, refinancings and other corporate purposes. The most common position in the capital structure of mezzanine funds will be between the senior secured debt holder and the equity; however, the funds in which we are invested 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 funds.

**Real estate funds:** Private real estate funds invest directly (through debt and equity) in commercial real estate (multifamily, industrial, office, student housing and retail) as well as 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 funds.

**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 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 funds.

**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.

**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.

- **Fund of funds:** Fund of funds allocate assets among multiple investment managers unaffiliated with the fund of funds sponsor employing a variety of proprietary investment strategies. Fund of funds strategies will invest in a portfolio of funds that primarily pursue the following investment strategies: equity, macro, event driven and credit.

**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.

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

#### Unconsolidated Variable Interest Entities

As a result of the adoption of Accounting Standards Update 2015-02, “Amendments to the Consolidation Analysis”, which became effective January 1, 2016, certain limited partnership investments and similar legal entity investments were considered variable interest entities (“VIEs”) as there were no substantive kick-out or other participating rights. These VIEs will not be consolidated because the Company has determined it is not considered the primary beneficiary, as it does not have both the power to direct the activities that most significantly impact the economic performance of the entity and the obligation to absorb

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losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could be potentially significant. As such, the Company continues to record its interests in these entities at fair value, with changes in fair value recorded in the consolidated income statements. The Company's interests in these entities are recorded in "other invested assets" in the unaudited condensed consolidated balance sheets ("consolidated balance sheets"). The Company's maximum exposure to loss in these entities, which is the sum of the carrying value and the unfunded commitment, was \$982.6 million as of September 30, 2016.

## c) Net Investment Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Fixed maturity investments	\$46.4	\$42.8	\$143.3	\$120.3
Equity securities	1.1	3.1	4.4	11.5
Other invested assets: hedge funds and private equity	5.9	3.4	18.2	16.3
Other invested assets: other private securities	1.0	1.8	5.7	(1.1 )
Cash and cash equivalents	0.7	0.3	2.0	1.2
Expenses	(4.5 )	(5.7 )	(13.9 )	(15.2 )
Net investment income	\$50.6	\$45.7	\$159.7	\$133.0

The loss from "other invested assets: other private securities" for the nine months ended September 30, 2015 included an other-than-temporary impairment of \$6.3 million related to one of the Company's equity method investments. The Company recorded the other-than-temporary impairment as the fair value of this investment was below its carrying value.

## d) Components of Realized Gains and Losses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Gross realized gains on sale of invested assets	\$23.2	\$18.7	\$123.3	\$100.1
Gross realized losses on sale of invested assets	(16.5 )	(34.7 )	(85.3 )	(57.8 )
Net realized and unrealized losses on derivatives	(1.0 )	(19.9 )	(23.9 )	(17.6 )
Mark-to-market gains (losses):				
Fixed maturity investments, trading	(9.4 )	(15.3 )	108.3	(42.5 )
Equity securities, trading	11.1	(62.8 )	(3.1 )	(57.8 )
Other invested assets, trading	3.3	0.4	(15.3 )	(13.2 )
Net realized investment gains (losses)	\$10.7	\$(113.6)	\$104.0	\$(88.8)

## e) Pledged Assets

As of September 30, 2016 and December 31, 2015, \$2,717.3 million and \$2,748.9 million, 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.

In addition, as of September 30, 2016 and December 31, 2015, a further \$572.8 million and \$579.3 million, respectively, of cash and cash equivalents and investments were pledged as collateral for the Company's letter of credit facilities.

In June 2016, the Company entered into a \$200.0 million committed unsecured credit facility with a syndication of lenders (the "Credit Agreement"). The Credit Agreement provides for a \$200.0 million five-year senior unsecured revolving credit facility (the "Facility") for the making of revolving loans and short-term swingline loans. The aggregate commitment of \$200.0 million under the Facility may be increased by up to \$150.0 million upon the Company's request and upon the agreement of one

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or more lenders or additional lenders. The Facility replaces the four-year senior secured credit facility under the Amended and Restated Credit Agreement, dated as of June 7, 2012.

In addition, see Note 11(g) to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for further details on the Company's credit facilities.

## 5. DERIVATIVE INSTRUMENTS

As of September 30, 2016 and December 31, 2015, 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 consolidated balance sheets:

	September 30, 2016				December 31, 2015			
	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	\$4.6	\$ —	\$ 202.2	\$ 2.2	\$41.1	\$ 0.1	\$ 244.8	\$ 3.0
Interest rate swaps	—	—	—	—	—	—	328.2	0.5
Total derivatives	\$4.6	\$ —	\$ 202.2	\$ 2.2	\$41.1	\$ 0.1	\$ 573.0	\$ 3.5

Derivative assets and derivative liabilities are classified within "other assets" or "accounts payable and accrued liabilities" on the consolidated balance sheets. As of September 30, 2016, all open interest rate swap contracts were closed out.

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 September 30, 2016		Nine Months Ended September 30, 2016	
Foreign exchange contracts	\$(0.1)	\$0.2	\$1.0	\$(6.0)
Total included in foreign exchange (loss) gain	(0.1)	0.2	1.0	(6.0)
Foreign exchange contracts	—	0.1	(15.3)	0.9
Interest rate futures and swaps	(1.0)	(20.0)	(8.6)	(18.5)
Total included in net realized investment losses	(1.0)	(19.9)	(23.9)	(17.6)
Total realized and unrealized losses on derivatives	\$(1.1)	\$(19.7)	\$(22.9)	\$(23.6)

## 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.

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.

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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:

September 30, 2016	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
<b>ASSETS:</b>					
Fixed maturity investments:					
U.S. government and government agencies	\$1,471.2	\$1,471.2	\$1,429.4	\$41.8	\$—
Non-U.S. government and government agencies	488.1	488.1	—	488.1	—
States, municipalities and political subdivisions	480.8	480.8	—	480.8	—
Corporate debt					
Financial institutions	1,084.2	1,084.2	—	1,080.7	3.5
Industrials	1,372.5	1,372.5	—	1,371.7	0.8
Utilities	138.4	138.4	—	138.4	—
Mortgage-backed					
Agency mortgage-backed	845.9	845.9	—	558.3	287.6
Non-agency residential mortgage-backed	22.6	22.6	—	22.6	—
Commercial mortgage-backed	631.8	631.8	—	630.6	1.2
Asset-backed	791.8	791.8	—	728.1	63.7
Total fixed maturity investments	7,327.3	7,327.3	1,429.4	5,541.1	356.8
Equity securities	216.1	216.1	216.1	—	—
Other invested assets <sup>(1)</sup>	827.1	827.1	—	—	—
Total investments	\$8,370.5	\$8,370.5	\$1,645.5	\$5,541.1	\$356.8
<b>LIABILITIES:</b>					
Derivative liabilities:					

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Foreign exchange contracts	\$2.2	\$2.2	\$—	\$2.2	\$—
Senior notes	\$794.0	\$850.5	\$—	\$850.5	\$—
Other long-term debt	\$23.3	\$30.0	\$—	\$30.0	\$—

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December 31, 2015	Carrying Amount	Total Fair Value	Level 1	Level 2	Level 3
<b>ASSETS:</b>					
Fixed maturity investments:					
U.S. government and government agencies	\$1,434.0	\$1,434.0	\$1,396.4	\$37.6	\$—
Non-U.S. government and government agencies	556.8	556.8	—	556.8	—
States, municipalities and political subdivisions	413.5	413.5	—	413.5	—
Corporate debt					
Financial institutions	1,275.4	1,275.4	—	1,275.4	—
Industrials	1,308.1	1,308.1	—	1,308.1	—
Utilities	118.9	118.9	—	118.9	—
Mortgage-backed					
Agency mortgage-backed	751.8	751.8	—	645.7	106.1
Non-agency residential mortgage-backed	34.0	34.0	—	34.0	—
Commercial mortgage-backed	582.8	582.8	—	582.8	—
Asset-backed	726.2	726.2	—	663.2	63.0
Total fixed maturity investments	7,201.5	7,201.5	1,396.4	5,636.0	169.1
Equity securities	403.0	403.0	403.0	—	—
Other invested assets <sup>(1)</sup>	840.2	840.2	—	—	—
Total investments	\$8,444.7	\$8,444.7	\$1,799.4	\$5,636.0	\$169.1
Derivative assets:					
Foreign exchange contracts	\$0.1	\$0.1	\$—	\$0.1	\$—
<b>LIABILITIES:</b>					
Derivative liabilities:					
Foreign exchange contracts	\$3.0	\$3.0	\$—	\$3.0	\$—
Interest rate swaps	\$0.5	\$0.5	\$—	\$0.5	\$—
Senior notes	\$1,292.9	\$1,337.9	\$—	\$1,337.9	\$—
Other long-term debt	\$23.0	\$27.7	\$—	\$27.7	\$—

<sup>(1)</sup> In accordance with U.S. GAAP, other invested assets, excluding other private securities, are measured at fair value using the net asset value per share (or its equivalent) practical expedient and have not been classified in the fair value hierarchy.

“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.

## 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.

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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 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, unless the significant inputs used to price the corporate debt 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.

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 ("MBS") 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 MBS. The spreads are sourced from broker-dealers, trade prices and the new issue market. As the significant inputs used to price the MBS 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 MBS 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 U.S. and foreign 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 (the "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.

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 other long-term debt is included in the Level 2 fair value hierarchy.

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## 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 expected future cash flow and market multiple 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.

## 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 September 30, 2016	MBS	CMBS	Total mortgage-backed	Asset-backed	Equities	Corporate debt - financial	Corporate debt - industrial
Opening balance	\$138.2	\$—	\$ 138.2	\$ 62.3	\$—	\$ —	\$ —
Realized and unrealized gains (losses) included in net income (loss)	0.9	—	0.9	1.7	—	—	—
Purchases	178.0	—	178.0	6.6	—	—	—
Sales	(19.4 )	—	(19.4 )	(5.5 )	—	—	—
Transfers into Level 3 from Level 2	0.3	1.2	1.5	—	—	3.5	0.8
Transfers out of Level 3 into Level 2 <sup>(1)</sup>	(10.4 )	—	(10.4 )	(1.4 )	—	—	—
Ending balance	\$287.6	\$1.2	\$ 288.8	\$ 63.7	\$—	\$ 3.5	\$ 0.8
Three Months Ended September 30, 2015							
Opening balance	\$96.5	\$3.1	\$ 99.6	\$ 83.9	\$57.8	\$ —	\$ —
Realized and unrealized gains (losses) included in net income (loss)	0.8	—	0.8	(2.5 )	(11.0 )	—	—
Purchases	9.7	—	9.7	0.1	—	—	—
Sales	(6.5 )	(2.9 )	(9.4 )	(7.9 )	(20.0 )	—	—
Transfers into Level 3 from Level 2	3.1	—	3.1	0.6	—	—	—
Transfers out of Level 3 into Level 2 <sup>(1)</sup>	—	(0.2 )	(0.2 )	(16.7 )	—	—	—
Ending balance	\$103.6	\$—	\$ 103.6	\$ 57.5	\$26.8	\$ —	\$ —

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Nine Months Ended September 30, 2016	MBS	CMBS	Total mortgage-backed	Asset-backed	Equities	Corporate debt - financial	Corporate debt - industrial
Opening balance	\$106.1	\$—	\$ 106.1	\$ 63.0	\$—	\$ —	\$ —
Realized and unrealized gains (losses) included in net income (loss)	3.4	—	3.4	2.5	—	—	—
Purchases	216.4	—	216.4	18.4	—	1.5	—
Sales	(29.7 )	—	(29.7 )	(10.4 )	—	—	—
Transfers into Level 3 from Level 2	1.8	1.2	3.0	8.0	—	2.0	0.8
Transfers out of Level 3 into Level 2 <sup>(1)</sup>	(10.4 )	—	(10.4 )	(17.8 )	—	—	—
Ending balance	\$287.6	\$1.2	\$ 288.8	\$ 63.7	\$—	\$ 3.5	\$ 0.8
Nine Months Ended September 30, 2015							
Opening balance	\$180.1	\$1.7	\$ 181.8	\$ 55.5	\$43.3	\$ —	\$ —
Realized and unrealized gains (losses) included in net income (loss)	(0.1 )	0.1	—	(3.0 )	3.5	—	—
Purchases	14.8	1.8	16.6	7.0	—	—	—
Sales	(91.2 )	(3.6 )	(94.8 )	(20.2 )	(20.0 )	—	—
Transfers into Level 3 from Level 2	—	—	—	41.2	—	—	—
Transfers out of Level 3 into Level 2 <sup>(1)</sup>	—	—	—	(23.0 )	—	—	—
Ending balance	\$103.6	\$—	\$ 103.6	\$ 57.5	\$26.8	\$ —	\$ —

<sup>(1)</sup> 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 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.

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

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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:

	September 30, 2016	December 31, 2015
Outstanding loss reserves	\$ 1,751.0	\$ 1,678.5
Reserves for losses incurred but not reported	4,914.8	4,777.7
Reserve for losses and loss expenses	\$ 6,665.8	\$ 6,456.2

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Gross liability at beginning of period	\$6,623.2	\$6,363.9	\$6,456.2	\$5,881.2
Reinsurance recoverable at beginning of period	(1,516.7 )	(1,433.1 )	(1,480.0 )	(1,340.3 )
Net liability at beginning of period	5,106.5	4,930.8	4,976.2	4,540.9
Acquisition of net reserves for losses and loss expenses	—	—	—	257.0
Net losses incurred related to:				
Current year	406.0	425.5	1,207.0	1,267.7
Prior years	(29.7 )	(8.6 )	(92.9 )	(94.1 )
Total incurred	376.3	416.9	1,114.1	1,173.6
Net paid losses related to:				
Current year	70.6	60.8	111.8	95.4
Prior years	301.1	287.8	864.5	866.8
Total paid	371.7	348.6	976.3	962.2
Foreign exchange revaluation	4.0	(12.3 )	1.1	(22.5 )
Net liability at end of period	5,115.1	4,986.8	5,115.1	4,986.8
Reinsurance recoverable at end of period	1,550.7	1,449.8	1,550.7	1,449.8
Gross liability at end of period	\$6,665.8	\$6,436.6	\$6,665.8	\$6,436.6

The "Acquisition of net reserves for losses and loss expenses" during the nine months ended September 30, 2015 represents the net reserves acquired from the Hong Kong and Singapore branches of RSA of \$252.8 million and the net reserves acquired from the Labuan branch of RSA of \$4.2 million.



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For the three months ended September 30, 2016, the Company recorded net favorable prior year reserve development primarily due to lower than expected claims development in the North American Insurance and Reinsurance segments, partially offset by unfavorable prior year reserve development in the Global Markets Insurance segment. The unfavorable loss reserve development in the Global Markets Insurance segment was primarily due to higher than expected reported losses in the other specialty line of business in the 2014 loss year.

For the nine months ended September 30, 2016, the Company recorded net favorable prior year reserve development in each of its operating segments, primarily due to actual loss emergence being lower than initially expected. The net favorable

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prior year reserve development in the North American Insurance segment was primarily related to the professional liability line of business. The net favorable reserve development in the Global Markets Insurance segment was primarily related to the casualty and property lines of business, partially offset by unfavorable reserve development in the professional liability and other specialty lines of business. The net favorable prior year reserve development in the Reinsurance segment was primarily related to the property reinsurance and specialty reinsurance lines of business, partially offset by net unfavorable prior year reserve development in the casualty reinsurance line of business.

For the three months ended September 30, 2015, the Company recorded net favorable prior year reserve development in each of its operating segments. The net favorable prior year reserve development in the North American Insurance segment was due to net favorable prior year reserve development in loss years 2010 and prior in the casualty and professional liability lines of business. The net favorable reserve development in the Global Markets Insurance segment was primarily related to the casualty and property lines of business across multiple loss years. The net favorable prior year reserve development in the Reinsurance segment was primarily related to the property reinsurance line of business in the 2014 and 2015 loss years.

For the nine months ended September 30, 2015, the Company recorded net favorable prior year reserve development in each of its operating segments primarily 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 line of business. The net favorable reserve development in the Global Markets Insurance segment was primarily related to the other specialty and property lines of business, partially offset by unfavorable reserve development in the professional liability line of business. The net favorable prior year reserve development in the Reinsurance segment was primarily related to the property reinsurance and specialty reinsurance lines of business, partially offset by net unfavorable prior year reserve development in the casualty reinsurance line of business.

Although 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 its taxable equity. One of Allied World Switzerland's subsidiaries is a Swiss operating company, which is a 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 and the United Kingdom. The U.S. Internal Revenue Service (the "IRS") is currently conducting an audit of the 2014 tax return of the U.S. services company. The audit is ongoing and the Company is not aware of any findings from the audit thus far. During the current year, the IRS completed its audit of the 2012 consolidated tax return of the Company's U.S. subsidiaries. There were no findings as a result of the audit. To the best of the Company's knowledge, there are no other income tax 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 September 30, 2016.

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## 9. SHAREHOLDERS' EQUITY

## a) Authorized shares

The issued share capital consists of the following:

		September 30, 2016	December 31, 2015
Common shares issued and fully paid, 2016 and 2015: CHF 4.10 per share		93,586,418	95,523,230
Share capital at end of period		\$ 378.8	\$ 386.7
	Nine Months Ended September 30, 2016		
Shares issued at beginning of period		95,523,230	
Shares canceled		(1,936,812 )	
Total shares issued at end of period		93,586,418	
Treasury shares issued at beginning of period		4,563,595	
Shares repurchased		4,669,213	
Shares issued out of treasury		(683,862 )	
Shares canceled		(1,936,812 )	
Total treasury shares at end of period		6,612,134	
Total shares outstanding at end of period		86,974,284	

During the nine months ended September 30, 2016, 1,936,812 shares repurchased and designated for cancellation were constructively retired and canceled.

## b) Dividends

The Company paid the following dividends during the nine months ended September 30, 2016:

	Dividend Per Share	Total Amount Paid
March 31, 2016	\$ 0.260	\$ 23.4
June 30, 2016	\$ 0.260	\$ 22.8
September 29, 2016	\$ 0.260	\$ 22.6

On April 19, 2016, 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 will be paid to shareholders in quarterly installments of \$0.26 per share. The first installment of the dividend was distributed on June 30, 2016 and the second installment was distributed on September 29, 2016. The Company expects to distribute the remaining installments of the dividend in December 2016 and March 2017.

## c) Share Repurchases

On April 19, 2016, the shareholders approved a share repurchase program (the “2016 share repurchase program”) in order for the Company to repurchase up to \$500 million of its common shares. The 2016 share repurchase program supersedes the 2014 share repurchase program and no further repurchases will be made under the 2014 share repurchase program. 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 2016 share repurchase 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 2016 share repurchase program, the first three million of common shares repurchased will remain in treasury and

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will be used by the Company 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Common shares repurchased	716,970	—	4,669,216	4,047,437
Total cost of shares repurchased	\$ 26.2	\$ —	\$ 166.2	\$ 245.3
Average price per share	\$ 36.59	\$ —	\$ 35.61	\$ 40.56

No common shares were repurchased during the three months ended September 30, 2015.

On May 6, 2015, the Company repurchased 4,053,537 shares from Exor S.A. at a repurchase price of \$40.546 per share, for an aggregate purchase price of \$164.4 million. The repurchase was executed under the 2014 share repurchase program.

## 10. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Basic earnings (loss) per share:				
Net income (loss)	\$68.6	\$ (51.6 )	\$296.1	\$ 82.2
Weighted average common shares outstanding	87,102,901	88,251,111	88,691,983	88,068,088
Basic earnings (loss) per share	\$0.79	\$ (0.57 )	\$3.34	\$ 0.88
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Diluted earnings (loss) per share:				
Net income (loss)	\$68.6	\$ (51.6 )	\$296.1	\$ 82.2
Weighted average common shares outstanding	87,102,901	88,251,111	88,691,983	88,068,088
Share equivalents:				
Stock options	819,733	—	832,656	1,071,569
RSUs and performance-based equity awards	656,841	—	570,017	569,276
Employee share purchase plan	24,237	—	18,950	16,047
	88,603,901	88,251,111	90,113,606	90,724,980

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Weighted average common shares and common share equivalents outstanding -  
diluted

Diluted earnings (loss) per share \$0.77 \$ (0.57 ) \$3.29 \$ 0.87

For the three and nine months ended September 30, 2016, there were 224,728 and 231,214, respectively, common share equivalents considered anti-dilutive and therefore excluded from the calculation of diluted earnings per share.

For the three months ended September 30, 2015, there were no common share equivalents included in calculating diluted earnings per share as there was a net loss and any additional shares would be anti-dilutive.

For the nine months ended September 30, 2015, there were no common shares considered anti-dilutive and therefore excluded from the calculation of the diluted earnings per share.

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11. 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 types of account written. The Company is currently organized into three operating segments: North American Insurance, Global Markets Insurance and Reinsurance. All lines of business fall within these classifications.

The North American Insurance segment includes the Company's specialty insurance operations in the United States, Bermuda and Canada, as well as the Company's claims administration services operation. This segment provides both property and specialty casualty insurance primarily to North American domiciled accounts. The Global Markets Insurance segment includes the Company's specialty insurance operations in Europe and Asia Pacific, which includes offices in Dublin, Hong Kong, Labuan, London, Singapore, Sydney, and Zug, as well as the Company's insurance agency operation. This segment provides both property and casualty insurance primarily to non-North American domiciled accounts. The Reinsurance segment includes the Company's reinsurance operations in Bermuda, Labuan, London, New York, Singapore, and Zug. 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 income or loss as underwriting income or loss plus other insurance-related income and expenses, which may include the net earnings from the claims administration services operation, insurance agency operation 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 September 30, 2016	North	Global		
	American Insurance	Markets Insurance	Reinsurance	Total
Gross premiums written	\$ 466.5	\$ 126.7	\$ 137.0	\$ 730.2
Net premiums written	307.9	91.3	129.1	528.3
Net premiums earned	312.8	96.8	174.4	584.0
Net losses and loss expenses	(215.9 )	(74.5 )	(85.9 )	(376.3 )
Acquisition costs	(31.5 )	(16.4 )	(34.1 )	(82.0 )
General and administrative expenses	(55.1 )	(32.6 )	(16.5 )	(104.2 )
Underwriting income (loss)	10.3	(26.7 )	37.9	21.5
Other insurance-related income	1.1	0.7	—	1.8
Other insurance-related expenses	(0.6 )	(0.3 )	(1.3 )	(2.2 )
Segment income (loss)	\$ 10.8	\$ (26.3 )	\$ 36.6	\$ 21.1
Net investment income				50.6
Net realized investment gains				10.7
Amortization of intangible assets				(2.5 )
Interest expense				(13.5 )
Foreign exchange loss				(1.0 )
Income before income taxes				\$ 65.4
Loss and loss expense ratio	69.0	% 77.0	% 49.3	% 64.4 %
Acquisition cost ratio	10.1	% 17.0	% 19.5	% 14.0 %
General and administrative expense ratio	17.6	% 33.7	% 9.5	% 17.8 %
Expense ratio	27.7	% 50.7	% 29.0	% 31.8 %
Combined ratio	96.7	% 127.7	% 78.3	% 96.2 %

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Three Months Ended September 30, 2015	North American Insurance	Global Markets Insurance	Reinsurance	Total
Gross premiums written	\$ 460.4	\$ 132.7	\$ 161.0	\$ 754.1
Net premiums written	350.8	104.1	152.1	607.0
Net premiums earned	332.8	110.3	207.6	650.7
Net losses and loss expenses	(222.3 )	(70.9 )	(123.7 )	(416.9 )
Acquisition costs	(35.6 )	(22.7 )	(41.8 )	(100.1 )
General and administrative expenses	(58.3 )	(29.3 )	(18.2 )	(105.8 )
Underwriting income (loss)	16.6	(12.6 )	23.9	27.9
Other insurance-related income	0.7	—	—	0.7
Other insurance-related expenses	(0.7 )	(0.6 )	—	(1.3 )
Segment income (loss)	\$ 16.6	\$(13.2 )	\$ 23.9	\$ 27.3
Net investment income				45.7
Net realized investment losses				(113.6 )
Amortization of intangible assets				(2.6 )
Interest expense				(14.5 )
Foreign exchange gain				0.8
Loss before income taxes				\$(56.9 )
Loss and loss expense ratio	66.8	% 64.3	% 59.6	% 64.1 %
Acquisition cost ratio	10.7	% 20.6	% 20.1	% 15.4 %
General and administrative expense ratio	17.5	% 26.6	% 8.7	% 16.3 %
Expense ratio	28.2	% 47.2	% 28.8	% 31.7 %
Combined ratio	95.0	% 111.5	% 88.4	% 95.8 %

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Nine Months Ended September 30, 2016	North American Insurance	Global Markets Insurance	Reinsurance	Total	
Gross premiums written	\$1,354.1	\$367.6	\$ 672.4	\$2,394.1	
Net premiums written	904.9	267.1	638.5	1,810.5	
Net premiums earned	958.8	285.1	523.2	1,767.1	
Net losses and loss expenses	(642.1 )	(203.4 )	(268.6 )	(1,114.1 )	
Acquisition costs	(102.8 )	(50.6 )	(104.3 )	(257.7 )	
General and administrative expenses	(164.1 )	(93.2 )	(48.0 )	(305.3 )	
Underwriting income (loss)	49.8	(62.1 )	102.3	90.0	
Other insurance-related income	2.6	0.7	4.3	7.6	
Other insurance-related expenses	(1.9 )	(0.3 )	(2.8 )	(5.0 )	
Segment income (loss)	\$50.5	\$(61.7 )	\$ 103.8	\$92.6	
Net investment income				159.7	
Net realized investment gains				104.0	
Amortization of intangible assets				(7.5 )	
Interest expense				(53.3 )	
Foreign exchange gain				4.9	
Income before income taxes				\$300.4	
Loss and loss expense ratio	67.0	% 71.3	% 51.3	% 63.0	%
Acquisition cost ratio	10.7	% 17.7	% 19.9	% 14.6	%
General and administrative expense ratio	17.1	% 32.7	% 9.2	% 17.3	%
Expense ratio	27.8	% 50.4	% 29.1	% 31.9	%
Combined ratio	94.8	% 121.7	% 80.4	% 94.9	%

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Nine Months Ended September 30, 2015	North	Global			
	American Insurance	Markets Insurance	Reinsurance	Total	
Gross premiums written	\$1,358.6	\$328.2	\$ 773.8		\$2,460.6
Net premiums written	1,019.9	216.2	747.1		1,983.2
Net premiums earned	974.2	263.0	628.4		1,865.6
Net losses and loss expenses	(655.5 )	(157.2 )	(360.9 )		(1,173.6 )
Acquisition costs	(100.8 )	(54.1 )	(124.5 )		(279.4 )
General and administrative expenses	(175.7 )	(78.1 )	(57.5 )		(311.3 )
Underwriting income (loss)	42.2	(26.4 )	85.5		101.3
Other insurance-related income	2.5	—	—		2.5
Other insurance-related expenses	(2.1 )	(2.2 )	—		(4.3 )
Segment income (loss)	\$42.6	\$(28.6 )	\$ 85.5		\$99.5
Net investment income					133.0
Net realized investment gains					(88.8 )
Amortization of intangible assets					(6.1 )
Interest expense					(43.2 )
Foreign exchange loss					(10.4 )
Income before income taxes					\$84.0
Loss and loss expense ratio	67.3	% 59.8	% 57.4	% 62.9	%
Acquisition cost ratio	10.3	% 20.6	% 19.8	% 15.0	%
General and administrative expense ratio	18.0	% 29.7	% 9.1	% 16.7	%
Expense ratio	28.3	% 50.3	% 28.9	% 31.7	%
Combined ratio	95.6	% 110.1	% 86.3	% 94.6	%

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		Nine Months	
	Ended		Ended	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
United States	\$497.5	\$489.6	\$1,517.5	\$1,509.3
Asia Pacific	87.4	106.0	281.1	239.3
Bermuda	75.1	84.5	360.1	449.0
Europe	67.2	70.8	220.8	251.0
Canada	3.0	3.2	14.6	12.0
Total gross premiums written	\$730.2	\$754.1	\$2,394.1	\$2,460.6

Europe includes gross premiums written attributable to Switzerland of \$8.3 million and \$12.2 million for the three months ended September 30, 2016 and 2015, respectively, and \$46.3 million and \$56.9 million for the nine months ended September 30, 2016 and 2015, respectively.



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The following table shows the Company's net premiums earned by line of business for each segment for each of the periods indicated.

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
North American Insurance:				
Casualty	\$100.7	\$112.2	\$301.8	\$326.2
Professional liability	93.9	98.4	298.5	281.9
Programs	42.4	38.3	125.3	109.2
Other specialty	30.9	20.0	84.2	52.9
Property	29.1	39.3	97.5	123.2
Healthcare	15.8	24.6	51.5	80.8
Total	312.8	332.8	958.8	974.2
Global Markets Insurance:				
Other specialty	33.5	30.0	94.6	69.9
Professional liability	24.2	27.7	73.2	77.0
Casualty	22.3	32.0	68.0	68.9
Property	16.8	20.6	49.3	47.2
Total	96.8	110.3	285.1	263.0
Reinsurance:				
Property	82.9	102.3	250.6	311.5
Casualty	48.1	58.2	141.0	174.0
Specialty	43.4	47.1	131.6	142.9
Total	174.4	207.6	523.2	628.4
Total net premiums earned	\$584.0	\$650.7	\$1,767.1	\$1,865.6

## 12. 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 September 30, 2016, 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.

The Company repaid its \$500.0 million aggregate principal amount of 7.50% senior notes that matured on August 1, 2016 using the \$500.0 million of aggregate proceeds from the 4.35% senior notes issued in October 2015. See Note 11 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for further details on the Company's senior notes.

## 13. CONDENSED CONSOLIDATED GUARANTOR FINANCIAL STATEMENTS

The following tables present unaudited condensed consolidating financial information as of September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015 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

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## ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

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 September 30, 2016	Allied World Switzerland (Parent Guarantor)	Allied World Bermuda (Subsidiary Issuer)	Other Allied World Subsidiaries	Consolidating Adjustments	Allied World Switzerland Consolidated
<b>ASSETS:</b>					
Investments	\$ —	\$ —	\$ 8,485.1	\$ —	\$ 8,485.1
Cash and cash equivalents	14.8	0.9	758.1	—	773.8
Insurance balances receivable	—	—	893.3	—	893.3
Funds held	—	—	263.9	—	263.9
Reinsurance recoverable	—	—	1,550.7	—	1,550.7
Reinsurance recoverable on paid losses	—	—	129.1	—	129.1
Net deferred acquisition costs	—	—	157.7	—	157.7
Goodwill and intangible assets	—	—	503.9	—	503.9
Balances receivable on sale of investments	—	—	20.3	—	20.3
Investments in subsidiaries	3,466.4	4,038.4	—	(7,504.8 )	—
Due from subsidiaries	145.0	6.9	17.3	(169.2 )	—
Other assets	2.1	0.8	761.7	—	764.6
Total assets	\$ 3,628.3	\$ 4,047.0	\$ 13,541.1	\$ (7,674.0 )	\$ 13,542.4
<b>LIABILITIES:</b>					
Reserve for losses and loss expenses	\$ —	\$ —	\$ 6,665.8	\$ —	\$ 6,665.8
Unearned premiums	—	—	1,785.2	—	1,785.2
Reinsurance balances payable	—	—	258.4	—	258.4
Balances due on purchases of investments	—	—	242.4	—	242.4
Senior notes	—	794.0	—	—	794.0
Other long-term debt	—	—	23.3	—	23.3
Due to subsidiaries	9.7	7.7	151.8	(169.2 )	—
Other liabilities	2.7	15.3	139.4	—	157.4
Total liabilities	12.4	817.0	9,266.3	(169.2 )	9,926.5
Total shareholders' equity	3,615.9	3,230.0	4,274.8	(7,504.8 )	3,615.9
Total liabilities and shareholders' equity	\$ 3,628.3	\$ 4,047.0	\$ 13,541.1	\$ (7,674.0 )	\$ 13,542.4



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## ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

As of December 31, 2015	Allied World Switzerland (Parent Guarantor)	Allied World Bermuda (Subsidiary Issuer)	Other Allied World Subsidiaries	Consolidating Adjustments	Allied World Switzerland Consolidated
<b>ASSETS:</b>					
Investments	\$ —	\$ —	\$ 8,571.2	\$ —	\$ 8,571.2
Cash and cash equivalents	21.8	1.0	585.2	—	608.0
Insurance balances receivable	—	—	745.9	—	745.9
Funds held	—	—	640.8	—	640.8
Reinsurance recoverable	—	—	1,480.0	—	1,480.0
Reinsurance recoverable on paid losses	—	—	96.4	—	96.4
Net deferred acquisition costs	—	—	165.2	—	165.2
Goodwill and intangible assets	—	—	504.7	—	504.7
Balances receivable on sale of investments	—	—	36.9	—	36.9
Investments in subsidiaries	3,347.0	4,396.3	—	(7,743.3 )	—
Due from subsidiaries	173.1	36.4	16.8	(226.3 )	—
Other assets	1.8	0.1	660.9	—	662.8
Total assets	\$ 3,543.7	\$ 4,433.8	\$ 13,504.0	\$ (7,969.6 )	\$ 13,511.9
<b>LIABILITIES:</b>					
Reserve for losses and loss expenses	\$ —	\$ —	\$ 6,456.2	\$ —	\$ 6,456.2
Unearned premiums	—	—	1,683.3	—	1,683.3
Reinsurance balances payable	—	—	214.4	—	214.4
Balances due on purchases of investments	—	—	125.1	—	125.1
Senior notes	—	1,292.9	—	—	1,292.9
Other long-term debt	—	—	23.0	—	23.0
Due to subsidiaries	8.6	8.3	209.5	(226.4 )	—
Other liabilities	2.6	22.2	159.7	—	184.5
Total liabilities	11.2	1,323.4	8,871.2	(226.4 )	9,979.4
Total shareholders' equity	3,532.5	3,110.4	4,632.8	(7,743.2 )	3,532.5
Total liabilities and shareholders' equity	\$ 3,543.7	\$ 4,433.8	\$ 13,504.0	\$ (7,969.6 )	\$ 13,511.9

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## ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

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

Three Months Ended September 30, 2016	Allied World Switzerland (Parent Guarantor)	Allied World Bermuda (Subsidiary Issuer)	Other Allied World Subsidiaries	Consolidating Adjustments	Allied World Switzerland Consolidated
Net premiums earned	\$ —	\$ —	\$ 584.0	\$ —	\$ 584.0
Net investment income	—	0.1	50.5	—	50.6
Net realized investment gains (losses)	—	—	10.7	—	10.7
Other income	—	—	1.8	—	1.8
Net losses and loss expenses	—	—	(376.3)	) —	(376.3)
Acquisition costs	—	—	(82.0)	) —	(82.0)
General and administrative expenses	(9.5)	) (0.2)	(94.5)	) —	(104.2)
Other expense	—	—	(2.2)	) —	(2.2)
Amortization of intangible assets	—	—	(2.5)	) —	(2.5)
Interest expense	—	(13.0)	(0.5)	) —	(13.5)
Foreign exchange gain (loss)	—	—	(1.0)	) —	(1.0)
Income tax (expense) benefit	0.5	—	2.7	—	3.2
Equity in earnings of consolidated subsidiaries	77.6	90.7	—	(168.3)	) —
NET INCOME (LOSS)	\$ 68.6	\$ 77.6	\$ 90.7	\$ (168.3)	) \$ 68.6
Other comprehensive income (loss)	0.6	—	0.6	(0.6)	) 0.6
COMPREHENSIVE INCOME (LOSS)	\$ 69.2	\$ 77.6	\$ 91.3	\$ (168.9)	) \$ 69.2

  

Three Months Ended September 30, 2015	Allied World Switzerland (Parent Guarantor)	Allied World Bermuda (Subsidiary Issuer)	Other Allied World Subsidiaries	Consolidating Adjustments	Allied World Switzerland Consolidated
Net premiums earned	\$ —	\$ —	\$ 650.7	\$ —	\$ 650.7
Net investment income	—	—	45.7	—	45.7
Net realized investment gains (losses)	—	—	(113.6)	) —	(113.6)
Other income	—	—	0.7	—	0.7
Net losses and loss expenses	—	—	(416.9)	) —	(416.9)
Acquisition costs	—	—	(100.1)	) —	(100.1)
General and administrative expenses	(7.4)	) 0.6	(99.0)	) —	(105.8)
Other expense	—	—	(1.3)	) —	(1.3)
Amortization of intangible assets	—	—	(2.6)	) —	(2.6)
Interest expense	—	(13.9)	(0.6)	) —	(14.5)
Foreign exchange gain (loss)	—	—	0.8	—	0.8
Income tax (expense) benefit	(0.5)	) —	5.8	—	5.3
Equity in earnings of consolidated subsidiaries	(43.7)	) (37.0)	) —	80.7	—
NET INCOME (LOSS)	\$ (51.6)	) \$ (50.3)	) \$ (30.4)	) \$ 80.7	\$ (51.6)
Other comprehensive income (loss)	(1.0)	) —	(1.0)	) 1.0	(1.0)
COMPREHENSIVE INCOME (LOSS)	\$ (52.6)	) \$ (50.3)	) \$ (31.4)	) \$ 81.7	\$ (52.6)



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## ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

Nine Months Ended September 30, 2016	Allied World Switzerland (Parent Guarantor)	Allied World Bermuda (Subsidiary Issuer)	Other Allied World Subsidiaries	Consolidating Adjustments	Allied World Switzerland Consolidated
Net premiums earned	\$ —	\$ —	\$ 1,767.1	\$ —	\$ 1,767.1
Net investment income	—	0.1	159.6	—	159.7
Net realized investment gains (losses)	—	—	104.0	—	104.0
Other income	—	—	7.6	—	7.6
Net losses and loss expenses	—	—	(1,114.1)	) —	(1,114.1 )
Acquisition costs	—	—	(257.7)	) —	(257.7 )
General and administrative expenses	(7.0)	) 0.3	(298.6)	) —	(305.3 )
Other expense	—	—	(5.0)	) —	(5.0 )
Amortization of intangible assets	—	—	(7.5)	) —	(7.5 )
Interest expense	—	(51.8)	) (1.5)	) —	(53.3 )
Foreign exchange gain (loss)	(0.1)	) —	5.0	—	4.9
Income tax (expense) benefit	(0.8)	) —	(3.5)	) —	(4.3 )
Equity in earnings of consolidated subsidiaries	304.0	357.2	—	(661.2)	) —
NET INCOME (LOSS)	\$ 296.1	\$ 305.8	\$ 355.4	\$ (661.2)	) \$ 296.1
Other comprehensive income (loss)	3.9	—	3.9	(3.9)	) 3.9
COMPREHENSIVE INCOME (LOSS)	\$ 300.0	\$ 305.8	\$ 359.3	\$ (665.1)	) \$ 300.0

  

Nine Months Ended September 30, 2015	Allied World Switzerland (Parent Guarantor)	Allied World Bermuda (Subsidiary Issuer)	Other Allied World Subsidiaries	Consolidating Adjustments	Allied World Switzerland Consolidated
Net premiums earned	\$ —	\$ —	\$ 1,865.6	\$ —	\$ 1,865.6
Net investment income	—	—	133.0	—	133.0
Net realized investment gains (losses)	—	—	(88.8)	) —	(88.8 )
Other income	—	—	2.5	—	2.5
Net losses and loss expenses	—	—	(1,173.6)	) —	(1,173.6 )
Acquisition costs	—	—	(279.4)	) —	(279.4 )
General and administrative expenses	(27.1)	) 0.4	(284.6)	) —	(311.3 )
Other expense	—	—	(4.3)	) —	(4.3 )
Amortization of intangible assets	—	—	(6.1)	) —	(6.1 )
Interest expense	—	(41.6)	) (1.6)	) —	(43.2 )
Foreign exchange gain (loss)	—	—	(10.4)	) —	(10.4 )
Income tax (expense) benefit	(0.6)	) —	(1.2)	) —	(1.8 )
Equity in earnings of consolidated subsidiaries	109.9	138.6	—	(248.5)	) —
NET INCOME (LOSS)	\$ 82.2	\$ 97.4	\$ 151.1	\$ (248.5)	) \$ 82.2
Other comprehensive income	(4.3)	) —	(4.3)	) 4.3	(4.3 )
COMPREHENSIVE INCOME (LOSS)	\$ 77.9	\$ 97.4	\$ 146.8	\$ (244.2)	) \$ 77.9



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## ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

## Unaudited Condensed Consolidating Statement of Cash Flows:

Nine Months Ended September 30, 2016	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	\$ 219.8	\$ 477.5	\$ 688.0	\$ (763.9 )	\$ 621.4
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:					
Purchases of trading securities	—	—	(4,322.6 )	—	(4,322.6 )
Purchases of other invested assets	—	—	(58.5 )	—	(58.5 )
Sales of trading securities	—	—	4,595.8	—	4,595.8
Sales of other invested assets	—	—	99.2	—	99.2
Net cash paid for acquisitions	—	—	(1.2 )	—	(1.2 )
Return of investment in subsidiary	—	250.0	—	(250.0 )	—
Other	—	—	(41.3 )	—	(41.3 )
Net cash provided by (used in) investing activities	—	250.0	271.4	(250.0 )	271.4
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:					
Dividends paid	(68.8 )	—	—	—	(68.8 )
Intercompany dividends paid	—	(227.6 )	(536.3 )	763.9	—
Proceeds to parent	—	—	(250.0 )	250.0	—
Proceeds from the exercise of stock options	7.7	—	—	—	7.7
Share repurchases	(165.7 )	—	—	—	(165.7 )
Repayment of senior notes	—	(500.0 )	—	—	(500.0 )
Proceeds from other long-term debt	—	—	—	—	—
Repayment of other long-term debt	—	—	(0.2 )	—	(0.2 )
Net cash provided by (used in) financing activities	(226.8 )	(727.6 )	(786.5 )	1,013.9	(727.0 )
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7.0 )	(0.1 )	172.9	—	165.8
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	21.8	1.0	585.2	—	608.0
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 14.8	\$ 0.9	\$ 758.1	\$ —	\$ 773.8

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## ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in millions of United States dollars, except share, per share, percentage and ratio information)

Nine Months Ended September 30, 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:	\$ 302.0	\$ 333.1	\$ 661.1	\$ (712.8 )	\$ 583.4
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:					
Purchases of trading securities	—	—	(3,962.3 )	—	(3,962.3 )
Purchases of other invested assets	—	—	(110.9 )	—	(110.9 )
Sales of trading securities	—	—	3,888.4	—	3,888.4
Sales of other invested assets	—	—	160.3	—	160.3
Net cash paid for acquisitions	—	—	(141.5 )	—	(141.5 )
Other	—	—	(102.7 )	—	(102.7 )
Net cash provided by (used in) investing activities	—	—	(268.7 )	—	(268.7 )
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:					
Dividends paid	(66.8 )	—	—	—	(66.8 )
Intercompany dividends paid	—	(333.4 )	(379.4 )	712.8	—
Proceeds from the exercise of stock options	9.2	—	—	—	9.2
Share repurchases	(246.4 )	—	—	—	(246.4 )
Proceeds from other long-term debt	—	—	4.0	—	4.0
Repayment of other long-term debt	—	—	(0.2 )	—	(0.2 )
Net cash provided by (used in) financing activities	(304.0 )	(333.4 )	(375.6 )	712.8	(300.2 )
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2.0 )	(0.3 )	16.8	—	14.5
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	32.6	1.7	555.0	—	589.3
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 30.6	\$ 1.4	\$ 571.8	\$ —	\$ 603.8

## Notes to Parent Company Condensed Financial Information

## a) Dividends

Allied World Switzerland received cash dividends from its subsidiaries of \$227.6 million and \$333.4 million for the nine months ended September 30, 2016 and 2015, respectively. Such dividends are included in “cash flows provided by (used in) operating activities” in the unaudited condensed consolidating cash flows.

## 15. SUBSEQUENT EVENTS

During October 2016, Hurricane Matthew impacted the Caribbean and the Southeast coast of the United States with heavy winds, significant storm surge and flooding. The Company is currently assessing its claims and exposure related to this event, but information as of this filing is not sufficient to arrive at a reasonable estimate.





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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 to the terms "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 to "\$" are to the lawful currency of the United States and to "CHF" are to the lawful currency of Switzerland. References 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 2015 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") on February 22, 2016 (the "2015 Form 10-K") and Item 1A. of Part II of our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016, filed with the SEC on July 21, 2016. 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, Labuan, 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 September 30, 2016, we had approximately \$13.5 billion of total assets, \$3.6 billion of total shareholders' equity and \$4.4 billion of total capital, which includes shareholders' equity, senior notes and other long-term debt.

During the three months ended September 30, 2016, the property and casualty insurance and reinsurance industry continued to experience challenging market conditions due to continued heavy competition and the continuing low interest rate environment. Despite these market conditions, we selectively expanded our operations but also did not renew business or write new accounts that did not meet our underwriting standards. Our Reinsurance segment continued to experience unfavorable market conditions in terms of pricing, and terms and conditions, and either did not renew or decreased line sizes on certain treaties in response to these market conditions.

Our consolidated gross premiums written decreased by \$23.9 million, or 3.2%, for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The decrease was mainly driven by lower gross premiums written in our Reinsurance segment. Overall, our combined ratio was slightly higher by 0.4 percentage points in the current quarter.

Our net income increased by \$120.4 million to \$68.8 million for the three months ended September 30, 2016 compared to a net loss of \$51.6 million for the three months ended September 30, 2015. The increase was primarily due to net realized gains on our investments of \$10.7 million during the three months ended September 30, 2016 compared to net realized losses of \$113.6 million during the three months ended September 30, 2015.

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## Recent Developments

On June 23, 2016, a referendum was held in the United Kingdom in which a majority voted for the United Kingdom's withdrawal from the European Union ("Brexit"). The uncertainty related to the impact of Brexit caused significant financial market volatility and the full impact will not be known for the foreseeable future. Brexit did not have a material impact on our financial statements for the period ended September 30, 2016. For further information see Item 1A. "Risk Factors" in this Form 10-Q.

We repaid our \$500.0 million aggregate principal amount of 7.50% senior notes at maturity on August 1, 2016 using the \$500.0 million of aggregate proceeds from the 4.35% senior notes issued in October 2015.

## Financial Highlights

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(\$ in millions except share, per share and percentage data)			
Gross premiums written	\$730.2	\$754.1	\$2,394.1	\$2,460.6
Net income (loss)	68.6	(51.6 )	296.1	82.2
Operating income	55.2	51.4	196.9	169.0
Basic earnings (loss) per share:				
Net income (loss)	\$0.79	\$(0.57 )	\$3.34	\$0.88
Operating income	\$0.64	\$0.56	\$2.22	\$1.81
Diluted earnings (loss) per share:				
Net income (loss)	\$0.77	\$(0.57 )	\$3.29	\$0.87
Operating income	\$0.62	\$0.55 *	\$2.19	\$1.79
Weighted average common shares outstanding:				
Basic	87,102,290	90,882,511	88,691,983	93,068,088
Diluted	88,603,109	92,440,277	90,113,606	94,724,980
Annualized return on average equity (ROAE), net income (loss)	7.6	% (5.7 )%	11.0	% 3.0 %
Annualized ROAE, operating income	6.1	% 5.7 %	7.3	% 6.1 %
Basic book value per common share	\$41.57	\$39.11	\$41.57	\$39.11
Diluted book value per common share	\$40.29	\$38.03	\$40.29	\$38.03

\* Diluted weighted average common shares outstanding were only used in the calculation of diluted operating income per share and not in the calculation of diluted earnings per share, as there was a net loss during the three months ended September 30, 2015.

## 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").

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

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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		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	(\$ in millions, except share, per share and percentage data)			
Net income (loss)	\$ 68.6	\$ (51.6 )	\$ 296.1	\$ 82.2
Add after tax effect of:				
Net realized investment (gains) losses	(10.7 )	113.6	(104.0 )	88.8
Foreign exchange loss (gain)	1.0	(0.8 )	(4.9 )	10.4
Income tax (benefit) expense <sup>(1)</sup>	(3.7 )	(9.8 )	9.7	(12.4 )
Operating income	\$ 55.2	\$ 51.4	\$ 196.9	\$ 169.0
Basic per share data:				
Net income (loss)	\$ 0.79	\$ (0.57 )	\$ 3.34	\$ 0.88
Add after tax effect of:				
Net realized investment (gains) losses	(0.12 )	1.25	(1.17 )	0.95
Foreign exchange loss (gain)	0.01	(0.01 )	(0.06 )	0.11
Income tax (benefit) expense <sup>(1)</sup>	(0.04 )	(0.11 )	0.11	(0.13 )
Operating income	\$ 0.64	\$ 0.56	\$ 2.22	\$ 1.81
Diluted per share data:				
Net income (loss)	\$ 0.77	\$ (0.56 )*	\$ 3.29	\$ 0.87
Add after tax effect of:				
Net realized investment (gains) losses	(0.12 )	1.23	(1.15 )	0.94
Foreign exchange loss (gain)	0.01	(0.01 )	(0.05 )	0.11
Income tax (benefit) expense <sup>(1)</sup>	(0.04 )	(0.11 )	0.11	(0.13 )
Operating income	\$ 0.62	\$ 0.55	\$ 2.19	\$ 1.79

<sup>(1)</sup> Represents the tax expense or benefit associated with the specific country to which the pre-tax adjustment related.

\* Diluted weighted average common shares outstanding were only used in the calculation of diluted operating income per share and not in the calculation of diluted earnings per share, as there was a net loss during the three months ended September 30, 2015.

#### Annualized return on average shareholders' equity and average tangible shareholders' equity

Annualized return on average shareholders' equity ("ROAE") is calculated using average shareholders' equity, adjusted for other comprehensive income or loss. Annualized return on average tangible shareholders' equity ("ROATE") is calculated using average shareholders' equity, adjusted for other comprehensive income or loss, less goodwill and intangible assets. We present ROAE and ROATE as measures that are 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 and average tangible shareholders' equity is calculated using operating income instead of net income.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(\$ in millions except percentage data)			
Opening shareholders' equity	\$3,584.5	\$3,624.8	\$3,532.5	\$3,778.3
Add: accumulated other comprehensive loss	6.0	3.3	9.3	—
Adjusted opening shareholders' equity	\$3,590.5	\$3,628.1	\$3,541.8	\$3,778.3
Deduct opening:				
Goodwill	392.6	357.7	388.1	278.3
Intangible assets	113.5	136.4	116.6	46.3
Adjusted opening tangible shareholders' equity	\$3,084.4	\$3,134.0	\$3,037.1	\$3,453.7
Closing shareholders' equity	\$3,615.9	\$3,555.4	\$3,615.9	\$3,555.4
Deduct: accumulated other comprehensive loss	5.4	4.3	5.4	4.3
Adjusted closing shareholders' equity	\$3,621.3	\$3,559.7	\$3,621.3	\$3,559.7
Deduct closing:				
Goodwill	392.8	354.8	392.8	354.8
Intangible assets	111.1	130.6	111.1	130.6
Adjusted closing tangible shareholders' equity	\$3,117.4	\$3,074.3	\$3,117.4	\$3,074.3
Average shareholders' equity	\$3,605.9	\$3,593.9	\$3,581.6	\$3,669.0
Average tangible shareholders' equity	\$3,100.9	\$3,104.1	\$3,077.3	\$3,264.0
Net income (loss) available to shareholders	\$68.6	\$(51.6 )	\$296.1	\$82.2
Annualized net income (loss) available to shareholders	\$274.5	\$(206.5 )	\$394.8	\$109.6
Annualized return on average shareholders' equity — net income (loss) available to shareholders	7.6	% (5.7 )%	11.0	% 3.0 %
Annualized return on average tangible shareholders' equity — net income (loss) available to shareholders	8.8	% (6.7 )%	12.8	% 3.4 %
Operating income available to shareholders	\$55.2	\$51.4	\$196.9	\$169.0
Annualized operating income available to shareholders	\$220.9	\$205.8	\$262.6	\$225.3
Annualized return on average shareholders' equity — operating income available to shareholders	6.1	% 5.7 %	7.3	% 6.1 %
Annualized return on average tangible shareholders' equity — operating income available to shareholders	7.1	% 6.6 %	8.5	% 6.9 %

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## Tangible shareholders' equity and diluted book value per share

We have included tangible shareholders' equity, which is total shareholders' equity excluding goodwill and intangible assets, because it represents a more liquid measure of the Company's net assets than total shareholders' equity. We also 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 September 30,	
	2016	2015
	(\$ in millions, except share and per share data)	
Price per share at period end	\$40.42	\$ 38.17
Total shareholders' equity	\$3,615.9	\$ 3,555.4
Deduct:		
Goodwill	392.8	354.8
Intangible assets	111.1	130.6
Total tangible shareholders' equity	\$3,112.0	\$ 3,070.0
Basic common shares outstanding	86,974,28490,911,888	
Add:		
Unvested restricted stock units	1,194,576	823,635
Performance-based equity awards	588,537	591,683
Employee share purchase plan	38,404	32,515
Dilutive stock options outstanding	1,652,847	2,020,354
Weighted average exercise price per share	\$17.14	\$ 16.70
Deduct:		
Options bought back via treasury method	(700,903)	(883,846 )
Common shares and common share equivalents outstanding	89,747,745	93,496,229
Basic book value per common share	\$41.57	\$ 39.11
Diluted book value per common share	40.29	38.03
Basic tangible book value per common share	35.78	33.77
Diluted tangible book value per common share	34.67	32.84

## 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 includes revenue from our claims administration services operation, insurance agency operation and other non-recurring income.

## Expenses

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

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

## Critical Accounting Policies

It is important to understand our accounting policies in order to understand our financial position and results of operations. Our unaudited condensed consolidated financial statements reflect determinations that are inherently subjective in nature and require management to make assumptions and best estimates to determine the reported values. If events or other factors cause actual results to differ materially from management's underlying assumptions or estimates, there could be a material adverse effect on our financial condition or results of operations. We believe that some of the more critical judgments in the areas of accounting estimates and assumptions that affect our financial condition and results of operations are related to 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 2015 Form 10-K. There were no material changes in the application of our critical accounting estimates subsequent to that report.



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## Results of Operations

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

	Three Months Ended September 30, 20162015		Nine Months Ended September 30, 20162015		
	(\$ in millions)				
Revenues					
Gross premiums written	\$730.2	\$754.1	\$2,394.1	\$2,460.6	
Net premiums written	\$528.3	\$607.0	\$1,810.5	\$1,983.2	
Net premiums earned	\$584.0	\$650.7	\$1,767.1	\$1,865.6	
Net investment income	50.6	45.7	159.7	133.0	
Net realized investment gains (losses)	10.7	(113.6 )	104.0	(88.8 )	
Other income	1.8	0.7	7.6	2.5	
	\$647.1	\$583.5	\$2,038.4	\$1,912.3	
Expenses					
Net losses and loss expenses	\$376.3	\$416.9	\$1,114.1	\$1,173.6	
Acquisition costs	82.0	100.1	257.7	279.4	
General and administrative expenses	104.2	105.8	305.3	311.3	
Other expense	2.2	1.3	5.0	4.3	
Amortization of intangible assets	2.5	2.6	7.5	6.1	
Interest expense	13.5	14.5	53.3	43.3	
Foreign exchange loss (gain)	1.0	(0.8 )	(4.9 )	10.4	
	\$581.7	\$640.4	\$1,738.0	\$1,828.3	
Income (loss) before income taxes	65.4	(56.9 )	300.4	84.0	
Income tax (benefit) expense	(3.2 )	(5.3 )	4.3	1.8	
Net income (loss)	\$68.6	\$(51.6 )	\$296.1	\$82.2	
Ratios					
Loss and loss expense ratio	64.4	% 64.1	% 63.0	% 62.9	%
Acquisition cost ratio	14.0	% 15.4	% 14.6	% 15.0	%
General and administrative expense ratio	17.8	% 16.3	% 17.3	% 16.7	%
Expense ratio	31.8	% 31.7	% 31.9	% 31.7	%
Combined ratio	96.2	% 95.8	% 94.9	% 94.6	%

## Comparison of Three Months Ended September 30, 2016 and 2015

## Premiums

Gross premiums written decreased by \$23.9 million, or 3.2%, for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The overall decrease in gross premiums written was primarily the result of the following:

North American Insurance: Gross premiums written increased by \$6.1 million, or 1.3%. The increase in gross premiums written was primarily due to the growth in our programs line of business from existing programs and new programs. We also had growth in our other specialty lines of business, such as environmental and construction, driven primarily from new business. This was partially offset by the non-renewal of business that did not meet our underwriting requirements, particularly in our professional liability, property and healthcare lines of business;

Global Markets Insurance: Gross premiums written decreased by \$6.0 million, or 4.5%. The decrease was primarily due to lower gross premiums written in our casualty and property lines of business due to the non-renewal of policies that did not meet our underwriting requirements; and

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Reinsurance: Gross premiums written decreased by \$24.0 million, or 14.9%. The decrease was primarily due to the non-renewal of certain treaties across all lines of business, due either to poor terms and conditions or cedents retaining more of their own business. The non-renewal of treaties was partially offset by new business written for each line of business.

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

	Three Months Ended		Dollar Change		Percentage Change	
	September 30, 2016	September 30, 2015				
	(\$ in millions)					
North American Insurance	\$466.5	\$460.4	\$6.1	1.3	%	
Global Markets Insurance	126.7	132.7	(6.0)	(4.5)	%	
Reinsurance	137.0	161.0	(24.0)	(14.9)	%	
Total	\$730.2	\$754.1	\$(23.9)	(3.2)	%	

Net premiums written decreased by \$78.7 million, or 13.0%, for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The decrease in net premiums written was due to lower gross premiums written and higher premiums ceded. The difference between gross and net premiums written is the cost to us of purchasing reinsurance coverage, including the cost of property catastrophe reinsurance coverage. We ceded 27.6% of gross premiums written for the three months ended September 30, 2016 compared to 19.5% for the same period in 2015. The increase in ceded premiums was due to increased cessions in our North American Insurance and Global Markets Insurance segments.

Net premiums earned decreased by \$66.6 million, or 10.2%, for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 as a result of the decrease in net premiums written in the current year.

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

	Gross Premiums Written				Net Premiums Earned			
	Three Months Ended September 30, 2016		Three Months Ended September 30, 2015		Three Months Ended September 30, 2016		Three Months Ended September 30, 2015	
North American Insurance	63.9	%	61.0	%	53.5	%	51.1	%
Global Markets Insurance	17.3	%	17.6	%	16.6	%	17.0	%
Reinsurance	18.8	%	21.4	%	29.9	%	31.9	%
Total	100.0	%	100.0	%	100.0	%	100.0	%

#### Net Investment Income

Net investment income increased by \$4.9 million, or 10.7%, for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The increase was primarily due to higher interest income in the current period from our fixed maturity investments driven by the increase in our average aggregate fixed maturity portfolio in the current year. The annualized period book yield of the investment portfolio for the three months ended September 30, 2016 and 2015 was 2.2% and 2.1%, respectively.

As of September 30, 2016, approximately 91.7% of our fixed income investments consisted of investment grade securities. As of September 30, 2016 and December 31, 2015, the average Standard & Poor's credit rating of our fixed income portfolio was "AA-" and "A+", respectively.

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## Realized Investment Gains (Losses)

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

	Three Months Ended September 30, 2016 2015	
	(\$ in millions)	
Net realized gains (losses) on sale:		
Fixed maturity investments, trading	\$1.4	\$(5.3 )
Equity securities, trading	1.8	(12.2 )
Other invested assets: hedge funds and private equity, trading	3.5	1.4
Derivatives	2.2	(19.8 )
Total net realized gains (losses) on sale	8.9	(35.8 )
Mark-to-market gains (losses):		
Fixed maturity investments, trading	(9.5 )	(15.3 )
Equity securities, trading	11.1	(62.9 )
Other invested assets: hedge funds and private equity, trading	3.3	0.4
Derivatives	(3.2 )	(0.1 )
Total mark-to-market gains (losses)	1.8	(77.8 )
Net realized investment gains (losses)	\$10.7	\$(113.6)

The total return of our investment portfolio was positive 0.7% for the three months ended September 30, 2016 compared to negative 0.8% for the same period in 2015. The increase in total return was primarily due to less volatility in the financial markets during the current period compared to the same period last year.

## Other Income

Other income increased by \$1.1 million for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The increase in other income was due to the revenue from our insurance agency operation in our Global Markets Insurance segment that was acquired in the current period and increased revenue from our claims administration services operation in our North American Insurance segment.

## Net Losses and Loss Expenses

Net losses and loss expenses decreased by \$40.6 million, or 9.7%, for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The following is a breakdown of the loss and loss expense ratio for the three months ended September 30, 2016 and 2015:

	Three Months Ended September 30, 2016			Three Months Ended September 30, 2015			Dollar Change	Loss Ratio Percentage Point Change
	Amount	% of NPE (1)		Amount	% of NPE (1)			
				(\$ in millions)				
Non-catastrophe	\$401.0	68.7	%	\$390.0	59.9	%	\$11.0	8.8 pts
Property catastrophe	4.9	0.8		35.5	5.5		(30.6 )	(4.7 )
Current period	405.9	69.5		425.5	65.4		(19.6 )	4.1
Prior period	(29.6 )	(5.1 )	)	(8.6 )	(1.3 )	)	(21.0 )	(3.8 )
Net losses and loss expenses	\$376.3	64.4	%	\$416.9	64.1	%	\$(40.6 )	0.3 pts

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(1) “NPE” means net premiums earned.

Current year non-catastrophe losses and loss expenses

The increase in the current year non-catastrophe losses and loss expenses, and related ratio, was primarily due to higher non-catastrophe property losses and higher incurred losses primarily from the other specialty line of business in our Global

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Markets Insurance segment. The non-catastrophe property losses related to weather-related events, including flooding in Louisiana and Typhoon Meranti, and non-weather related losses. The higher non-catastrophe property losses increased the losses and loss expense ratio by 7.3 percentage points.

## Current year property catastrophe losses and loss expenses

During the three months ended September 30, 2016, we did not have any new net losses incurred that we classified as property catastrophe losses. However, we incurred an additional \$4.9 million of losses primarily related to the hailstorm in Texas that occurred in April of this year. During the three months ended September 30, 2015, we incurred property catastrophe losses and loss expenses of \$35.5 million related to explosions in the port of Tianjin, China.

## Prior year losses and loss expenses

We recorded net favorable reserve development related to prior years of \$29.6 million during the three months ended September 30, 2016 compared to net favorable reserve development of \$8.6 million for the three months ended September 30, 2015, as shown in the tables below.

	(Favorable) and Unfavorable Loss Reserve Development by Loss Year For the Three Months Ended September 30, 2016						
	2010 and Prior	2011	2012	2013	2014	2015	Total
	(\$ in millions)						
North American Insurance	\$(18.4)	\$(2.6)	\$(0.9)	\$8.3	\$(2.3)	\$(0.2)	\$(16.1)
Global Markets Insurance	2.0	(1.1 )	(1.2 )	(3.9 )	9.6	(1.3 )	4.1
Reinsurance	(3.6 )	(1.3 )	(5.5 )	1.1	(6.6 )	(1.7 )	(17.6 )
	\$(20.0)	\$(5.0)	\$(7.6)	\$5.5	\$0.7	\$(3.2)	\$(29.6)

For the three months ended September 30, 2016, the net favorable prior year reserve development was primarily due to lower than expected loss emergence in our North American Insurance and Reinsurance segments. The unfavorable loss reserve development in our Global Markets Insurance segment was due to higher than expected reported losses in our other specialty line of business.

The following table shows the net favorable reserve development by loss year for each of our segments for the three months ended September 30, 2015.

	(Favorable) and Unfavorable Loss Reserve Development by Loss Year For the Three Months Ended September 30, 2015						
	2009 and Prior	2010	2011	2012	2013	2014	Total
	(\$ in millions)						
North American Insurance	\$(11.6)	\$(4.2)	\$(2.9)	\$2.8	\$6.1	\$8.3	\$(1.5)
Global Markets Insurance	(2.0 )	(2.5 )	(1.1 )	(0.6 )	5.7	(1.9 )	(2.4 )
Reinsurance	(5.5 )	(1.2 )	(0.2 )	2.0	(0.9 )	1.1	(4.7 )
	\$(19.1)	\$(7.9)	\$(4.2)	\$4.2	\$10.9	\$7.5	\$(8.6)

For the three months ended September 30, 2015, the net favorable prior year reserve development was primarily due to lower than expected loss emergence across each of our segments. The net favorable prior year reserve development

for the North American Insurance segment primarily related to net favorable prior year reserve development in the professional liability line of business, partially offset by unfavorable prior year development in the casualty line of business from the 2011 to 2014 loss years. The net favorable reserve development in the Global Markets Insurance segment was primarily due to net favorable loss reserve development in the professional liability line of business, partially offset by unfavorable prior year reserve development in the other specialty line of business from the 2013 loss year. The net favorable reserve development in the Reinsurance segment was primarily related to the property and specialty reinsurance lines of business.

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

	Three Months Ended September 30,		Dollar
	2016	2015	Change
	(\$ in millions)		
Net losses paid	\$371.7	\$348.6	\$23.1
Net change in reported case reserves	(30.9 )	(14.6 )	(16.3 )
Net change in IBNR	35.5	82.9	(47.4 )
Net losses and loss expenses	\$376.3	\$416.9	\$(40.6)

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 September 30,	
	2016	2015
	(\$ in millions)	
Net reserves for losses and loss expenses, July 1	\$5,106.5	\$4,930.8
Incurring related to:		
Current period non-catastrophe	401.1	390.0
Current period property catastrophe	4.9	35.5
Prior period	(29.7 )	(8.6 )
Total incurred	376.3	416.9
Paid related to:		
Current period	70.6	60.8
Prior period	301.1	287.8
Total paid	371.7	348.6
Foreign exchange revaluation	4.0	(12.3 )
Net reserve for losses and loss expenses, September 30	5,115.1	4,986.8
Losses and loss expenses recoverable	1,550.7	1,449.8
Reserve for losses and loss expenses, September 30	\$6,665.8	\$6,436.6

## Acquisition Costs

Acquisition costs decreased by \$18.1 million, or 18.1%, for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The decrease in acquisition costs was primarily due to lower acquisition costs in each of our segments. Acquisition costs as a percentage of net premiums earned were 14.0% for the three months ended September 30, 2016, compared to 15.4% for the same period in 2015. The lower acquisition cost ratio was primarily due to higher ceding commission income related to the restructuring of some of our underlying reinsurance programs in our North American Insurance and Global Markets Insurance segments and lower acquisition costs related to the amortization of the insurance-related intangible asset recorded as part of the acquisitions of the RSA operations.

## General and Administrative Expenses

General and administrative expenses decreased by \$1.6 million, or 1.5%, for the three months ended September 30, 2016 compared to the same period in 2015. Our general and administrative expense ratio was 17.8% for the three months ended September 30, 2016 and 16.3% for the three months ended September 30, 2015. The decrease in

general and administrative expenses was primarily due to expense-control initiatives implemented during the current year, partially offset by higher stock-based compensation expense due to the increase in our stock price. We have granted cash equivalent restricted stock units and performance-based equity awards to certain key employees, and we measure the value of each of those awards at the share price at the end of the period. Changes in our share price are recognized as increases or decreases in our compensation expense ratably over the service period. Our share price increased 15% for the three months ended September 30, 2016 compared to a 12% decrease for the same period in 2015.

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### Other Expense

Other expense increased by \$0.9 million for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The increase in other expense was due to higher unrealized losses recorded in our Reinsurance segment related to single-trigger industry loss warranties ("ILWs") and expenses incurred related to our insurance agency operation in our Global Markets Insurance segment that was acquired in the current period.

### Amortization of Intangible Assets

The amortization of intangible assets decreased by \$0.1 million for the three months ended September 30, 2016 compared to the three months ended September 30, 2015.

### Interest Expense

Interest expense decreased by \$1.0 million, or 6.9%, for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The decrease in interest expense was due to less principal outstanding on our senior notes due to the repayment of the \$500.0 million aggregate principal amount of 7.50% senior notes that matured on August 1, 2016.

### Foreign Exchange Loss (Gain)

We recorded a foreign exchange loss of \$1.0 million during the three months ended September 30, 2016 compared to a gain of \$0.8 million during the three months ended September 30, 2015.

### Income Tax (Benefit) Expense

Corporate income tax expense or benefit is generated through our operations in Australia, Canada, Europe, Hong Kong, Labuan, 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.

We recorded an income tax benefit of \$3.2 million for the three months ended September 30, 2016 compared to an income tax benefit of \$5.3 million for the three months ended September 30, 2015. The income tax benefit recognized in both periods was primarily due to investment losses recognized in our U.S. operations.

### Comparison of Nine Months Ended September 30, 2016 and 2015

### Premiums