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

Form 10-Q
(Mark One)

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

For the quarterly period ended: March 31, 2015
OR

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

For the transition period from to
Commission file number: 001-32938
ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG
(Exact Name of Registrant as Specified in Its Charter)

Switzerland	98-0681223
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

Gubelstrasse 24, Park Tower, 15th Floor, 6300 Zug, Switzerland
(Address of Principal Executive Offices and Zip Code)

41-41-768-1080
(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

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

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

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

Total liabilities and shareholders’ equity	$12,617,786	$12,421,563

See accompanying notes to the consolidated financial statements.

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

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

See accompanying notes to the consolidated financial statements.

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

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

See accompanying notes to the consolidated financial statements.

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

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

See accompanying notes to the consolidated financial statements.

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

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

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

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

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

2. BASIS OF PREPARATION AND CONSOLIDATION

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

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

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

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

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

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

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

3. NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

4. INVESTMENTS

a) Trading Securities

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

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

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

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

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

b) Other Invested Assets

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

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

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

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

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

The following describes each investment type:

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

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

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

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

c) Net Investment Income

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

d) Components of Realized Gains and Losses

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

e) Pledged Assets

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

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

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

5. DERIVATIVE INSTRUMENTS

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

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

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

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

	Three Months Ended March 31,	
	2015	2014
Foreign exchange contracts	$(7,352)	$(868)
Total included in foreign exchange loss	(7,352)	(868)
Foreign exchange contracts	1,050	(558