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

FORM 10-Q

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the period ended June 30, 2014,

or

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission file number 1-31599

ENDURANCE SPECIALTY HOLDINGS LTD.
(Exact Name of Registrant as Specified in Its Charter)

Bermuda **(State or other jurisdiction of incorporation or organization)**	**98-0392908** **(I.R.S. Employer Identification No.)**

Waterloo House
100 Pitts Bay Road
Pembroke HM 08, Bermuda
(Address of principal executive offices, including postal code)

Registrant's Telephone Number, Including Area Code: (441) 278-0400

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 periods 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 (Section 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 definitions of "accelerated filer", "large 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	☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Description of Class	Common Shares Outstanding as of August 1, 2014
Ordinary Shares - $1.00 par value	44,719,594

Table of Contents

INDEX

Table of Contents

ENDURANCE SPECIALTY HOLDINGS LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands of United States dollars, except share amounts)

	JUNE 30, 2014 (UNAUDITED)	DECEMBER 31, 2013
ASSETS		
Investments		
Fixed maturity investments, available for sale at fair value (amortized cost: $4,912,191 and $4,802,580 at June 30, 2014 and December 31, 2013, respectively)	$ 4,993,099	$ 4,823,964
Short-term investments, available for sale at fair value (amortized cost: $24,564 and $35,029 at June 30, 2014 and December 31, 2013, respectively)	24,564	35,028
Equity securities, available for sale at fair value (cost: $249,463 and $227,828 at June 30, 2014 and December 31, 2013, respectively)	287,642	252,466
Other investments	648,642	617,478
Total investments	5,953,947	5,728,936
Cash and cash equivalents	801,028	845,851
Premiums receivable, net	1,380,858	669,198
Insurance and reinsurance balances receivable	134,750	127,722
Deferred acquisition costs	257,262	186,027
Prepaid reinsurance premiums	424,133	187,209
Reinsurance recoverable on unpaid losses	606,140	593,755
Reinsurance recoverable on paid losses	145,694	164,220
Accrued investment income	26,385	24,104
Goodwill and intangible assets	162,178	165,378
Deferred tax asset	45,782	51,703
Net receivable on sales of investments	67,578	54,910
Other assets	172,912	179,109
Total assets	$ 10,178,647	$ 8,978,122
LIABILITIES		
Reserve for losses and loss expenses	$ 3,963,393	$ 4,002,259
Reserve for unearned premiums	1,689,819	1,018,851
Deposit liabilities	21,987	19,458
Reinsurance balances payable	378,295	181,061
Debt	527,714	527,478
Net payable on purchases of investments	272,696	129,047
Other liabilities	209,068	213,419
Total liabilities	7,062,972	6,091,573
Commitments and contingent liabilities		
SHAREHOLDERS' EQUITY		
Preferred shares		
Series A and B, total liquidation preference $430,000 (2013 – $430,000)	17,200	17,200
Common shares		
Ordinary – 44,705,758 issued and outstanding (2013 – 44,368,742)	44,706	44,369
Additional paid-in capital	583,691	569,116
Accumulated other comprehensive income	136,038	62,731
Retained earnings	2,334,040	2,193,133
Total shareholders' equity	3,115,675	2,886,549
Total liabilities and shareholders' equity	$ 10,178,647	$ 8,978,122

See accompanying notes to unaudited condensed consolidated financial statements.

ENDURANCE SPECIALTY HOLDINGS LTD.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)
(In thousands of United States dollars, except share and per share amounts)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2014	2013	2014	2013
Revenues				
Gross premiums written	$ 689,425	$ 572,710	$1,846,940	$1,750,072
Ceded premiums written	(177,998)	(108,089)	(536,808)	(376,536)
Net premiums written	511,427	464,621	1,310,132	1,373,536
Change in unearned premiums	(29,889)	78,714	(432,328)	(410,084)
Net premiums earned	481,538	543,335	877,804	963,452
Net investment income	39,302	32,468	80,292	81,773
Net realized and unrealized investment gains	3,411	10,372	8,283	16,607
Total other-than-temporary impairment losses	(198)	(579)	(309)	(1,385)
Portion of loss recognized in other comprehensive income (loss)	—	—	—	—
Net impairment losses recognized in earnings	(198)	(579)	(309)	(1,385)
Other underwriting (loss) income	(4,824)	888	(6,062)	1,637
Total revenues	519,229	586,484	960,008	1,062,084
Expenses				
Net losses and loss expenses	259,196	359,058	436,092	578,028
Acquisition expenses	78,601	71,868	150,758	143,504
General and administrative expenses	86,455	81,359	159,661	147,837
Amortization of intangibles	1,623	1,625	3,240	3,726
Net foreign exchange losses	319	3,368	3,283	6,295
Interest expense	9,732	9,052	18,783	18,090
Total expenses	435,926	526,330	771,817	897,480
Income before income taxes	83,303	60,154	188,191	164,604
Income tax (expense) benefit	(140)	865	(548)	(3,286)
Net income	83,163	61,019	187,643	161,318
Preferred dividends	(8,188)	(8,188)	(16,376)	(16,376)
Net income available to common and participating common shareholders	$ 74,975	$ 52,831	$ 171,267	$ 144,942
Comprehensive income (loss)				
Net income	$ 83,163	$ 61,019	$ 187,643	$ 161,318
Other comprehensive income (loss)				
Net unrealized holding gains (losses) on investments arising during the period (net of other-than-temporary impairment losses recognized in other comprehensive income (loss), reclassification adjustment and applicable deferred income taxes of ($5,916) and $10,831 for the six months ended June 30, 2014 and 2013, respectively)	37,659	(106,249)	61,039	(111,095)
Foreign currency translation adjustments	8,998	219	12,223	(9,975)
Reclassification adjustment for net losses on derivative designated as cash flow hedge included in net income	22	29	45	45
Other comprehensive income (loss)	46,679	(106,001)	73,307	(121,025)
Comprehensive income (loss)	$ 129,842	$ (44,982)	$ 260,950	$ 40,293
Per share data				
Basic earnings per common share	$ 1.68	$ 1.21	$ 3.84	$ 3.34
Diluted earnings per common share	$ 1.68	$ 1.21	$ 3.84	$ 3.34
Dividend per common share	$ 0.34	$ 0.32	$ 0.68	$ 0.64

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

ENDURANCE SPECIALTY HOLDINGS LTD.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands of United States dollars)

	SIX MONTHS ENDED JUNE 30, 2014	SIX MONTHS ENDED JUNE 30, 2013
Preferred shares		
Balance, beginning and end of period	$ 17,200	$ 17,200
Common shares		
Balance, beginning of period	44,369	43,116
Issuance of common shares, net of forfeitures	337	1,533
Repurchase of common shares	—	(318)
Balance, end of period	44,706	44,331
Additional paid-in capital		
Balance, beginning of period	569,116	527,915
Issuance of common shares, net of forfeitures	900	29,598
Repurchase of common shares and share equivalents	—	(14,266)
Settlement of equity awards	(4,039)	(2,923)
Stock-based compensation expense	17,714	15,931
Balance, end of period	583,691	556,255
Accumulated other comprehensive income		
Cumulative foreign currency translation adjustments:		
Balance, beginning of period	18,636	12,676
Foreign currency translation adjustments	12,223	(9,975)
Balance, end of period	30,859	2,701
Unrealized holding gains on investments, net of deferred taxes:		
Balance, beginning of period	45,950	141,731
Net unrealized holding gains (losses) arising during the period, net of other-than-temporary impairment losses and reclassification adjustment	61,039	(111,095)
Balance, end of period	106,989	30,636
Accumulated derivative loss on cash flow hedging instruments:		
Balance, beginning of period	(1,855)	(1,944)
Net change from current period hedging transactions, net of reclassification adjustment	45	45
Balance, end of period	(1,810)	(1,899)
Total accumulated other comprehensive income	136,038	31,438
Retained earnings		
Balance, beginning of period	2,193,133	1,969,903
Net income	187,643	161,318
Dividends on preferred shares	(16,376)	(16,376)
Dividends on common shares	(30,360)	(28,015)
Balance, end of period	2,334,040	2,086,830
Total shareholders' equity	$3,115,675	$2,736,054

See accompanying notes to unaudited condensed consolidated financial statements.

ENDURANCE SPECIALTY HOLDINGS LTD.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of United States dollars)

	SIX MONTHS ENDED JUNE 30, 2014	SIX MONTHS ENDED JUNE 30, 2013
Cash flows provided by operating activities		
Net income	$ 187,643	$ 161,318
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of net premium on investments	22,253	27,804
Amortization of other intangibles and depreciation	10,673	9,479
Net realized and unrealized investment gains	(8,283)	(16,607)
Net impairment losses recognized in earnings	309	1,385
Deferred taxes	4	2,092
Stock-based compensation expense	17,714	15,931
Equity in earnings of other investments	(24,326)	(29,839)
Premiums receivable, net	(711,660)	(669,866)
Insurance and reinsurance balances receivable	(7,028)	(5,742)
Deferred acquisition costs	(71,235)	(42,488)
Prepaid reinsurance premiums	(236,924)	(126,209)
Reinsurance recoverable on unpaid losses	(12,385)	97,763
Reinsurance recoverable on paid losses	18,526	(18,594)
Accrued investment income	(2,281)	1,762
Other assets	4,271	8,540
Reserve for losses and loss expenses	(38,866)	(95,295)
Reserve for unearned premiums	670,968	535,009
Deposit liabilities	2,529	(4,435)
Reinsurance balances payable	197,234	151,739
Other liabilities	531	38,965
Net cash flows provided by operating activities	19,667	42,712
Cash flows used in investing activities		
Proceeds from sales of available for sale investments	2,060,744	1,395,528
Proceeds from maturities and calls on available for sale investments	284,656	381,332
Proceeds from the redemption of other investments	19,703	23,406
Purchases of available for sale investments	(2,345,876)	(1,894,444)
Purchases of other investments	(26,541)	(45,414)
Net settlements of other assets	14,174	(18,584)
Purchases of fixed assets	(25,706)	(7,081)
Net cash paid for subsidiary acquisition	(40)	(347)
Net cash flows used in investing activities	(18,886)	(165,604)
Cash flows used in financing activities		
Issuance of common shares, net of forfeitures	1,128	31,049
Repurchase of common shares	—	(14,584)
Settlement of equity awards	(4,039)	(2,923)
Debt issuance costs paid	(4,750)	—
Proceeds from issuance of debt	373	408
Repayments and repurchases of debt	(244)	(446)
Dividends on preferred shares	(16,376)	(16,376)
Dividends on common shares	(30,343)	(27,834)
Net cash flows used in financing activities	(54,251)	(30,706)
Effect of exchange rate changes on cash and cash equivalents	8,647	(28,359)
Net decrease in cash and cash equivalents	(44,823)	(181,957)
Cash and cash equivalents, beginning of period	845,851	1,124,019
Cash and cash equivalents, end of period	$ 801,028	$ 942,062

See accompanying notes to unaudited condensed consolidated financial statements.

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in tables expressed in thousands of United States dollars, except for ratios, share and per share amounts)

1. General

Endurance Specialty Holdings Ltd. ("Endurance Holdings" or the "Company") was organized as a Bermuda holding company on June 27, 2002. Endurance Holdings writes specialty lines of insurance and reinsurance on a global basis through its wholly-owned operating subsidiaries:

Operating Subsidiaries	Domicile
Endurance Specialty Insurance Ltd.	Bermuda
Endurance Worldwide Insurance Limited	England
Endurance Reinsurance Corporation of America	Delaware
Endurance American Insurance Company	Delaware
Endurance American Specialty Insurance Company	Delaware
Endurance Risk Solutions Assurance Co.	Delaware
American Agri-Business Insurance Company	Texas

2. Summary of significant accounting policies

The accompanying unaudited condensed consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States for interim financial information and with the instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. The unaudited condensed consolidated financial statements include the accounts of Endurance Holdings and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. Management is required to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying disclosures. Actual results could differ from those estimates. Among other matters, significant estimates and assumptions are used to record premiums written and ceded, to record the fair value of investments and to record reserves for losses and loss expenses and contingencies. Estimates and assumptions are periodically reviewed and the effects of revisions are recorded in the consolidated financial statements in the period that they are determined to be necessary.

The balance sheet at December 31, 2013 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2013 contained in Endurance Holdings' Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (the "2013 Form 10-K").

Certain comparative information has been reclassified to conform to current year presentation.

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except
for ratios, share and per share amounts)

2. Summary of significant accounting policies, cont'd.

There were no material changes in the Company's significant accounting and reporting policies subsequent to the filing of the 2013 Form 10-K.

In July 2013, the FASB issued ASU 2013-11 "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" ("ASU 2013-11"). ASU 2013-11 provides guidance on the presentation of unrecognized tax benefits to better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. ASU 2013-11 was effective for annual and interim reporting periods beginning after December 15, 2013, with both early adoption and retrospective application permitted. The Company adopted this standard effective January 1, 2014. This standard did not have a material impact on the Company's consolidated financial statements.

3. Investments

Composition of Net Investment Income and of Invested Assets

The components of net investment income for the three and six months ended June 30, 2014 and 2013 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Available for sale investments	$ 31,619	$ 28,666	$ 61,946	$ 58,147
Other investments	10,785	6,780	24,327	29,839
Cash and cash equivalents	511	840	1,297	1,291
	$ 42,915	$ 36,286	$ 87,570	$ 89,277
Investment expenses	(3,613)	(3,818)	(7,278)	(7,504)
Net investment income	$ 39,302	$ 32,468	$ 80,292	$ 81,773

The following table summarizes the composition of the investment portfolio by investment type at June 30, 2014 and December 31, 2013:

	June 30, 2014		December 31, 2013	
Type of Investment	**Fair Value**	**Percentage**	**Fair Value**	**Percentage**
Fixed maturity investments	$4,993,099	76.2%	$4,823,964	74.2%
Cash and cash equivalents(1)	595,910	9.1%	771,714	11.9%
Other investments(2)	648,642	9.9%	617,478	9.5%
Short-term investments	24,564	0.4%	35,028	0.5%
Equity securities	287,642	4.4%	252,466	3.9%
Total	$6,549,857	100.0%	$6,500,650	100.0%

(1) Includes net receivable on sales of investments and net payable on purchases of investments.
(2) Consists of investments in alternative funds and specialty funds.

Table of Contents

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except for ratios, share and per share amounts)

3. Investments, cont'd.

The following table summarizes the composition by investment rating of the fixed maturity and short-term investments at June 30, 2014 and December 31, 2013. In some cases, where bonds are unrated, the rating of the issuer has been applied.

	June 30, 2014		December 31, 2013	
Ratings(1)	Fair Value	Percentage	Fair Value	Percentage
U.S. government and agencies securities	$ 564,120	11.2%	$ 769,343	15.8%
AAA / Aaa	1,137,895	22.7%	972,820	20.0%
AA / Aa	1,782,465	35.5%	1,771,156	36.5%
A / A	999,084	19.9%	895,549	18.4%
BBB	421,356	8.4%	363,722	7.5%
Below BBB	99,558	2.0%	66,791	1.4%
Not rated	13,185	0.3%	19,611	0.4%
Total	$5,017,663	100.0%	$4,858,992	100.0%

(1) The credit rating for each security reflected above was determined based on the rating assigned to the individual security by Standard & Poor's Financial Services LLC ("Standard & Poor's"). If a rating is not supplied by Standard & Poor's, the equivalent rating supplied by Moody's Investors Service, Inc. ("Moody's"), Fitch Ratings, Inc., or DBRS, Inc. is used.

Contractual maturities of the Company's fixed maturity and short-term investments are shown below as of June 30, 2014 and December 31, 2013. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$ 147,587	$ 148,630	$ 144,814	$ 145,653
Due after one year through five years	1,638,278	1,653,175	1,808,001	1,815,240
Due after five years through ten years	384,738	393,528	290,391	288,486
Due after ten years	47,496	50,325	26,344	26,937
Residential mortgage-backed securities	1,202,234	1,225,675	1,192,085	1,187,191
Commercial mortgage-backed securities	942,066	967,231	932,263	947,677
Collateralized loan and debt obligations	195,914	197,893	92,519	94,552
Asset-backed securities	378,442	381,206	351,192	353,256
Total	$4,936,755	$5,017,663	$4,837,609	$4,858,992

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except for ratios, share and per share amounts)

3. Investments, cont'd.

In addition to the Company's fixed maturity, short-term and equity investments, the Company invests in (i) hedge funds and private investment funds that generally invest in senior secured bank debt, high yield credit, distressed debt, distressed real estate, derivatives, and equity long/short strategies ("alternative funds") and (ii) high yield loan and convertible debt funds ("specialty funds"). The Company's alternative funds and specialty funds are recorded on the Company's balance sheet as "other investments." At June 30, 2014 and December 31, 2013, the Company had invested, net of capital returned, a total of $450.0 million and $440.9 million, respectively, in other investments. At June 30, 2014 and December 31, 2013, the carrying value of other investments was $648.6 million and $617.5 million, respectively. The following table summarizes the composition and redemption restrictions of other investments as of June 30, 2014 and December 31, 2013:

June 30, 2014	Market Value	Unfunded Commitments	Ineligible for Redemption over next 12 months
Alternative funds			
Hedge funds	$ 420,656	$ —	$ 44,553
Private investment funds	67,137	69,709	67,137
Total alternative funds	487,793	69,709	111,690
Specialty funds			
High yield loan funds	113,453	—	—
Convertible debt funds	47,396	—	—
Total specialty funds	160,849	—	—
Total other investments	$ 648,642	$ 69,709	$ 111,690

December 31, 2013	Market Value	Unfunded Commitments	Ineligible for Redemption in 2014
Alternative funds			
Hedge funds	$ 401,438	$ —	$ 47,406
Private investment funds	59,703	57,997	59,703
Total alternative funds	461,141	57,997	107,109
Specialty funds			
High yield loan funds	111,254	—	—
Convertible debt funds	45,083	—	—
Total specialty funds	156,337	—	—
Total other investments	$ 617,478	$ 57,997	$ 107,109

Hedge funds – The redemption frequency of the hedge funds range from monthly to biennially with notice periods from 30 to 90 days. Over one year, it is estimated that the Company can liquidate approximately 89.4% of the hedge fund portfolio, with the remainder over the following two years.

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except
for ratios, share and per share amounts)

3. Investments, cont'd.

Private investment funds – The Company generally has no right to redeem its interest in any private investment funds in advance of dissolution of the applicable partnership. Instead, the nature of these investments is that distributions are received by the Company in connection with the liquidation of or distribution of earnings from the underlying assets of the applicable limited partnership. It is estimated that the majority of the underlying assets of the limited partnerships would liquidate over 5 to 10 years from inception of the limited partnership. A secondary market, with unpredictable liquidity, exists for limited partner interests in private equity funds.

High yield loan funds – There are generally no restrictions on the Company's right to redeem its interest in high yield loan funds with the exception of certain redemption frequency and notice requirements. The redemption frequency of these funds ranges from monthly to quarterly with notice periods from 30 to 90 days.

Convertible debt funds – There are generally no restrictions on the Company's right to redeem its interest in convertible debt funds with the exception of certain redemption frequency and notice requirements. The redemption frequency of these funds is monthly with a required notice period of 5 days.

Net Realized and Unrealized Investment Gains

Realized and unrealized investment gains and losses are recognized in earnings using the first in, first out method. The analysis of net realized and unrealized investment gains and the change in the fair value of investment-related derivative financial instruments for the three and six months ended June 30, 2014 and 2013 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Gross realized gains on investment sales	$ 7,387	$16,591	$ 17,634	$24,011
Gross realized losses on investment sales	(5,319)	(5,283)	(11,303)	(6,746)
Change in fair value of derivative financial instruments[1]	1,343	(936)	1,952	(658)
Net realized and unrealized investment gains	$ 3,411	$10,372	$ 8,283	$16,607

(1) For additional information on the Company's derivative financial instruments, see Note 7.

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except
for ratios, share and per share amounts)

3. Investments, cont'd.

Unrealized Gains and Losses and Other-than-temporary Impairments

The Company classifies its investments in fixed maturity investments, short-term investments and equities as available for sale. The amortized cost, fair value and related gross unrealized gains and losses and non-credit other-than-temporary impairment ("OTTI") losses on the Company's securities classified as available for sale at June 30, 2014 and December 31, 2013 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-Credit OTTI (2)
June 30, 2014					
Fixed maturity investments					
U.S. government and agencies securities	$ 558,408	$ 7,759	$ (2,047)	$ 564,120	$ —
U.S. state and municipal securities	32,578	249	(115)	32,712	—
Foreign government securities	230,217	2,405	(936)	231,686	—
Government guaranteed corporate securities	52,378	609	—	52,987	—
Corporate securities	1,319,954	21,300	(1,665)	1,339,589	—
Residential mortgage-backed securities	1,202,234	27,040	(3,599)	1,225,675	(3,959)
Commercial mortgage-backed securities	942,066	27,461	(2,296)	967,231	(6)
Collateralized loan and debt obligations(1)	195,914	2,140	(161)	197,893	—
Asset-backed securities	378,442	3,125	(361)	381,206	(153)
Total fixed maturity investments	$4,912,191	$ 92,088	$ (11,180)	$4,993,099	$ (4,118)
Short-term investments	24,564	9	(9)	24,564	—
Total fixed income investments	$4,936,755	$ 92,097	$ (11,189)	$5,017,663	$ (4,118)
Equity securities					
Equity investments	$ 175,435	$ 33,968	$ (571)	$ 208,832	$ —
Emerging market debt funds	60,250	2,575	—	62,825	—
Preferred equity investments	7,548	2,211	(5)	9,754	—
Short-term fixed income fund	6,230	2	(1)	6,231	—
Total equity securities	$ 249,463	$ 38,756	$ (577)	$ 287,642	$ —

(1) Balances include amounts related to collateralized debt obligations held with total fair values of $11.9 million.
(2) Represents total OTTI recognized in accumulated other comprehensive income. It does not include the change in fair value subsequent to the impairment measurement date. At June 30, 2014, the gross unrealized loss related to fixed income investments for which a non-credit OTTI was recognized in accumulated other comprehensive income was nil.

(Amounts in tables expressed in thousands of United States dollars, except
for ratios, share and per share amounts)

Table of Contents

3. Investments, cont'd.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Non-Credit OTTI (2)
December 31, 2013					
Fixed maturity investments					
U.S. government and agencies securities	$ 771,227	$ 5,735	$ (7,619)	$ 769,343	$ —
U.S. state and municipal securities	27,138	111	(395)	26,854	—
Foreign government securities	183,650	1,003	(2,006)	182,647	—
Government guaranteed corporate securities	34,921	274	(50)	35,145	—
Corporate securities	1,217,585	16,225	(6,511)	1,227,299	—
Residential mortgage-backed securities	1,192,085	17,005	(21,899)	1,187,191	(4,257)
Commercial mortgage-backed securities	932,263	23,423	(8,009)	947,677	(47)
Collateralized loan and debt obligations(1)	92,519	2,233	(200)	94,552	—
Asset-backed securities	351,192	2,919	(855)	353,256	(163)
Total fixed maturity investments	$4,802,580	$ 68,928	$ (47,544)	$4,823,964	$ (4,467)
Short-term investments	35,029	1	(2)	35,028	—
Total fixed income investments	$4,837,609	$ 68,929	$ (47,546)	$4,858,992	$ (4,467)
Equity securities					
Equity investments	$ 152,525	$ 24,139	$ (1,995)	$ 174,669	$ —
Emerging market debt funds	60,250	594	—	60,844	—
Preferred equity investments	6,325	1,977	(79)	8,223	—
Short-term fixed income funds	8,728	2	—	8,730	—
Total equity securities	$ 227,828	$ 26,712	$ (2,074)	$ 252,466	$ —

(1) Balances include amounts related to collateralized debt obligations held with total fair values of $18.7 million.

(2) Represents total OTTI recognized in accumulated other comprehensive income. It does not include the change in fair value subsequent to the impairment measurement date. At December 31, 2013, the gross unrealized loss related to fixed income investments for which a non-credit OTTI was recognized in accumulated other comprehensive income was $0.1 million.

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except for ratios, share and per share amounts)

3. Investments, cont'd.

The following tables summarize, for all available for sale securities in an unrealized loss position at June 30, 2014 and December 31, 2013, the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position.

	Less than 12 months		12 months or greater		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
June 30, 2014						
Fixed maturity investments						
U.S. government and agencies securities	$ (44)	$ 26,863	$ (2,003)	$117,013	$ (2,047)	$ 143,876
U.S. state and municipal securities	(41)	4,829	(74)	6,842	(115)	11,671
Foreign government securities	(660)	58,447	(276)	18,721	(936)	77,168
Corporate securities	(370)	142,038	(1,295)	103,889	(1,665)	245,927
Residential mortgage-backed securities	(155)	31,998	(3,444)	163,473	(3,599)	195,471
Commercial mortgage-backed securities	(436)	53,792	(1,860)	100,956	(2,296)	154,748
Collateralized loan and debt obligations	(51)	60,408	(110)	1,839	(161)	62,247
Asset-backed securities	(97)	88,237	(264)	24,218	(361)	112,455
Total fixed maturity investments	$ (1,854)	$466,612	$ (9,326)	$536,951	$ (11,180)	$1,003,563
Short-term investments	(9)	14,936	—	—	(9)	14,936
Total fixed income investments	$ (1,863)	$481,548	$ (9,326)	$536,951	$ (11,189)	$1,018,499
Equity securities						
Equity investments	$ (467)	$ 11,368	$ (104)	$ 7,276	$ (571)	$ 18,644
Preferred equity investments	(3)	122	(2)	200	(5)	322
Short-term fixed income fund	(1)	2,899	—	—	(1)	2,899
Total equity securities	$ (471)	$ 14,389	$ (106)	$ 7,476	$ (577)	$ 21,865

As of June 30, 2014, 468 available for sale securities were in an unrealized loss position aggregating $11.8 million. Of those, 243 securities with aggregated unrealized losses of $9.4 million at June 30, 2014 had been in a continuous unrealized loss position for twelve months or greater.

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except for ratios, share and per share amounts)

3. Investments, cont'd.

	Less than 12 months		12 months or greater		Total	
	Unrealized Losses(1)	Fair Value	Unrealized Losses(1)	Fair Value	Unrealized Losses(1)	Fair Value
December 31, 2013						
Fixed maturity investments						
U.S. government and agencies securities	$ (7,359)	$ 382,593	$ (260)	$ 6,050	$ (7,619)	$ 388,643
U.S. state and municipal securities	(395)	20,452	—	—	(395)	20,452
Foreign government securities	(1,981)	139,503	(25)	5,261	(2,006)	144,764
Government guaranteed corporate securities	(50)	13,326	—	—	(50)	13,326
Corporate securities	(5,959)	478,287	(552)	28,690	(6,511)	506,977
Residential mortgage-backed securities	(17,542)	514,702	(4,357)	102,446	(21,899)	617,148
Commercial mortgage-backed securities	(7,681)	384,548	(328)	16,804	(8,009)	401,352
Collateralized loan and debt obligations	(48)	20,733	(152)	2,379	(200)	23,112
Asset-backed securities	(703)	157,172	(152)	7,011	(855)	164,183
Total fixed maturity investments	$ (41,718)	$2,111,316	$ (5,826)	$168,641	$ (47,544)	$2,279,957
Short-term investments	(2)	2,468	—	—	(2)	2,468
Total fixed income investments	$ (41,720)	$2,113,784	$ (5,826)	$168,641	$ (47,546)	$2,282,425
Equity securities						
Equity investments	$ (1,995)	$ 36,751	$ —	$ —	$ (1,995)	$ 36,751
Preferred equity investments	(79)	2,987	—	—	(79)	2,987
Total equity securities	$ (2,074)	$ 39,738	$ —	$ —	$ (2,074)	$ 39,738

(1) Gross unrealized losses include unrealized losses on non-OTTI and non-credit OTTI securities recognized in accumulated other comprehensive income at December 31, 2013.

As of December 31, 2013, 880 available for sale securities were in an unrealized loss position aggregating $49.6 million. Of those, 71 securities with aggregated unrealized losses of $5.8 million had been in a continuous unrealized loss position for twelve months or greater.

The analysis of OTTI for the three and six months ended June 30, 2014 and 2013 is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Total other-than-temporary impairment losses	$ (198)	$ (579)	$ (309)	$ (1,385)
Portion of loss recognized in other comprehensive income (loss)	—	—	—	—
Net impairment losses recognized in earnings	$ (198)	$ (579)	$ (309)	$ (1,385)

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except
for ratios, share and per share amounts)

3. Investments, cont'd.

Of the \$0.2 million (2013: \$0.6 million) of OTTI losses recognized by the Company in the second quarter of 2014, the majority was related to equity investments that had been at a loss for over a year. The decrease in gross unrealized losses on the Company's fixed income investments at June 30, 2014 compared to December 31, 2013 was primarily due to a decrease in interest rates during the period. At June 30, 2014, the Company did not have the intent to sell any of the remaining fixed income investments in an unrealized loss position and determined that it was unlikely that the Company would be required to sell securities in an unrealized loss position. The Company has the ability and intent to hold its equity securities until recovery; therefore, the Company does not consider its fixed income investments or equity securities to be other-than-temporarily impaired at June 30, 2014.

The following table provides a roll-forward of the amount related to credit losses for the Company's available for sale investments recognized in earnings for which a portion of an OTTI loss was recognized in accumulated other comprehensive income for the three and six months ended June 30, 2014:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Beginning balance	$ (1,520)	$ (1,883)	$ (1,553)	$ (2,000)
Addition for the amount related to the credit loss for which an other-than-temporary impairment was not previously recognized	—	—	—	—
Addition for the amount related to the credit loss for which an other-than-temporary impairment was previously recognized	—	—	—	—
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	—	—	—	—
Reductions for securities sold during the period	79	114	112	231
Ending balance	$ (1,441)	$ (1,769)	$ (1,441)	$ (1,769)

Variable Interest Entities

Entities that do not have sufficient equity at risk to allow the entity to finance its activities without additional financial support or in which the equity investors, as a group, do not have the characteristics of a controlling financial interest are referred to as variable interest entities ("VIE"). A VIE is consolidated by the variable interest holder that is determined to have the controlling financial interest (primary beneficiary) as a result of having both the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses or right to receive benefits from the VIE that could potentially be significant to the VIE. The Company determines whether it is the primary beneficiary of an entity subject to consolidation based on a qualitative assessment of the VIE's capital structure, contractual terms, nature of the VIE's operations and purpose and the Company's relative exposure to the related risks of the VIE on the date it becomes initially involved in the VIE. The Company reassesses its VIE determination with respect to an entity on an ongoing basis.

The Company is involved in the normal course of business with VIEs primarily as a passive investor in residential and commercial mortgage-backed securities and through its interests in various other investments that are structured as limited partnerships considered to be third party VIEs. The Company determined that it was not the primary beneficiary for any of these investments as of June 30, 2014. The Company believes its exposure to loss with respect to these investments is generally limited to the investment carrying amounts reported in the Company's Condensed Consolidated Balance Sheets and any unfunded investment commitments.

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except
for ratios, share and per share amounts)

4. Fair value measurement

The Company determines the fair value of the fixed maturity investments, short-term investments, equity securities, other investments, debt, and other assets and liabilities in accordance with current accounting guidance, which defines fair value and establishes a fair value hierarchy based on inputs to the various valuation techniques used for each fair value measurement. The Company determines the estimated fair value of each individual security utilizing the highest level inputs available. Valuation inputs by security type may include the following:

- Government and agencies fixed maturity securities – These securities are generally priced by pricing services or index providers. The pricing services or index providers may use current market trades for securities with similar quality, maturity and coupon. If no such trades are available, the pricing service typically uses analytical models which may incorporate option adjusted spreads, daily interest rate data and market/sector news. The Company generally classifies the fair values of government and agencies securities in Level 2. Current issue U.S. government securities are generally valued based on Level 1 inputs, which use the market approach valuation technique.
- Government guaranteed corporate fixed maturity securities – These securities are generally priced by pricing services or index providers. The pricing service or index providers may use current market trades for securities with similar quality, maturity and coupon. If no such trades are available, the pricing service typically uses analytical spread models which may incorporate inputs from the U.S treasury curve or LIBOR. The Company generally classifies the fair values of its government guaranteed corporate securities in Level 2.
- Corporate fixed maturity securities – These securities are generally priced by pricing services or index providers. The pricing services or index providers typically use discounted cash flow models that incorporate benchmark curves for treasury, swap and high issuance credits. Credit spreads are developed from current market observations for like or similar securities. The Company generally classifies the fair values of its corporate securities in Level 2.
- Equity securities – These securities are generally priced by pricing services or index providers. Depending on the type of underlying equity security or equity fund, the securities are priced by pricing services or index providers based on quoted market prices in active markets or through a discounted cash flow model that incorporates benchmark curves for treasury, swap and credits for like or similar securities. The Company generally classifies the fair values of its equity securities in Level 1 or 2.

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except
for ratios, share and per share amounts)

4. Fair value measurement, cont'd.

- Other assets and liabilities – A portion of other assets and liabilities are composed of a variety of derivative instruments used to enhance the efficiency of the investment portfolio and economically hedge certain risks. These instruments are generally priced by pricing services, broker/dealers and/or recent trading activity. The market value approach valuation technique is used to estimate the fair value for these derivatives based on significant observable market inputs. Certain derivative instruments are priced by pricing services based on quoted market prices in active markets. These derivative instruments are generally classified in Level 1. Other derivative instruments are priced using industry valuation models and are considered Level 2, as the inputs to the valuation model are based on observable market inputs. Also included in this line item are proprietary, non-exchange traded derivative-based risk management products primarily used to address weather and energy risks. The trading market for these weather derivatives are generally linked to energy and agriculture commodities, weather and other natural phenomena. In instances where market prices are not available, the Company uses industry or internally developed valuation techniques such as spread option, Black Scholes, quanto and simulation modeling to determine fair value and classifies these in Level 3. These models may reference prices for similar instruments.
- Structured securities including agency and non-agency, residential and commercial, mortgage and asset-backed securities and collateralized loan and debt obligations – These securities are generally priced by broker/dealers. Broker/dealers may use current market trades for securities with similar qualities. If no such trades are available, inputs such as bid and offer, prepayment speeds, the U.S. treasury curve, swap curve and cash settlement may be used in a discounted cash flow model to determine the fair value of a security. The Company generally classifies the fair values of its structured securities in Level 2.
- Other investments – Other investments are comprised of alternative funds and specialty funds and are generally priced on net asset values ("NAV") received from the fund managers or administrators. Due to the timing of the delivery of the final NAV by certain of the fund managers, valuations of certain alternative funds and specialty funds are estimated based on the most recently available information, including period end NAVs, period end estimates, or, in some cases, prior month or prior quarter NAVs. As this valuation technique incorporates both observable and significant unobservable inputs, the Company generally classifies the fair value of its other investments in Level 3.
- Debt – Outstanding debt consists of the Company's 6.15% Senior Notes due October 15, 2015 and the 7.0% Senior Notes due July 15, 2034 (the "Senior Notes"). The fair values of these securities were obtained from a third party pricing service and pricing was based on the spread above the risk-free yield curve. These spreads are generally obtained from the new issue market, secondary trading and broker-dealer quotes. As these spreads and the yields for the risk-free yield curve are observable market inputs, the fair values of the Senior Notes are classified in Level 2.

The carrying values of cash and cash equivalents, accrued investment income, net receivable on sales of investments, net payable on purchases of investments and other financial instruments not described above approximated their fair values at June 30, 2014.

Transfers between levels are assumed to occur at the end of each period.

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except for ratios, share and per share amounts)

4. Fair value measurement, cont'd.

The following table sets forth the Company's available for sale investments, other investments, other assets and liabilities and debt categorized by the level within the hierarchy in which the fair value measurements fall at June 30, 2014:

	Fair Value Measurements at June 30, 2014			
	Total at June 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Fixed maturity investments				
U.S. government and agencies securities	$ 564,120	$ 15,995	$ 548,125	$ —
U.S. state and municipal securities	32,712	—	32,712	—
Foreign government securities	231,686	—	231,686	—
Government guaranteed corporate securities	52,987	—	52,987	—
Corporate securities	1,339,589	—	1,338,871	718
Residential mortgage-backed securities	1,225,675	—	1,222,760	2,915
Commercial mortgage-backed securities	967,231	—	966,594	637
Collateralized loan and debt obligations	197,893	—	195,667	2,226
Asset-backed securities	381,206	—	378,187	3,019
Total fixed maturity investments	$4,993,099	$ 15,995	$4,967,589	$ 9,515
Equity securities				
Equity investments	208,832	147,659	61,173	—
Emerging market debt funds	62,825	—	62,825	—
Preferred equity investments	9,754	—	9,754	—
Short-term fixed income fund	6,231	6,231	—	—
Total equity securities	$ 287,642	$153,890	$ 133,752	$ —
Short-term investments	24,564	—	24,564	—
Other investments	648,642	—	—	648,642
Other assets (see Note 7)	79,888	—	68,896	10,992
Total assets	$6,033,835	$169,885	$5,194,801	$ 669,149
Liabilities				
Other liabilities (see Note 7)	$ 27,434	$ —	$ 17,150	$ 10,284
Debt	600,720	—	600,720	—
Total liabilities	$ 628,154	$ —	$ 617,870	$ 10,284

During the three months ended June 30, 2014, $2.9 million of primarily residential mortgage-backed securities were transferred into Level 3 as no observable inputs were available, and $1.6 million of primarily commercial mortgage-backed securities were transferred out of Level 3 during the period as market activity for these securities increased and observable inputs became available.

During the six months ended June 30, 2014, $5.0 million of primarily commercial and residential mortgage-backed securities were transferred into Level 3 as no observable inputs were available, and $1.9 million of primarily commercial mortgage-backed securities were transferred out of Level 3 as market activity for these securities increased and observable inputs became available. During the three and six months ended June 30, 2014, there were no transfers into or out of Level 1.

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except
for ratios, share and per share amounts)

4. Fair value measurement, cont'd.

The following table sets forth the Company's available for sale investments, other investments, other assets and liabilities and debt categorized by the level within the hierarchy in which the fair value measurements fall at December 31, 2013:

	Fair Value Measurements at December 31, 2013			
	Total at December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Fixed maturity investments				
U.S. government and agencies securities	$ 769,343	$ 20,248	$ 749,095	$ —
U.S. state and municipal securities	26,854	—	26,854	—
Foreign government securities	182,647	—	182,647	—
Government guaranteed corporate securities	35,145	—	35,145	—
Corporate securities	1,227,299	—	1,226,553	746
Residential mortgage-backed securities	1,187,191	—	1,186,943	248
Commercial mortgage-backed securities	947,677	—	946,794	883
Collateralized loan and debt obligations	94,552	—	92,095	2,457
Asset-backed securities	353,256	—	350,262	2,994
Total fixed maturity investments	$ 4,823,964	$ 20,248	$4,796,388	$ 7,328
Equity securities				
Equity investments	174,669	117,776	56,893	—
Emerging market debt funds	60,844	—	60,844	—
Preferred equity investments	8,223	—	8,223	—
Short-term fixed income fund	8,730	8,730	—	—
Total equity securities	$ 252,466	$ 126,506	$ 125,960	$ —
Short-term investments	35,028	—	35,028	—
Other investments	617,478	—	—	617,478
Other assets (see Note 7)	108,272	—	94,234	14,038
Total assets	$ 5,837,208	$ 146,754	$5,051,610	$ 638,844
Liabilities				
Other liabilities (see Note 7)	49,452	—	29,883	19,569
Debt	575,115	—	575,115	—
Total liabilities	$ 624,567	$ —	$ 604,998	$ 19,569

Level 3 assets represented 11.1% and 10.9% of the Company's total available for sale investments, other investments and derivative instruments at June 30, 2014 and December 31, 2013, respectively. Level 3 securities are primarily comprised of non-agency commercial mortgage-backed securities, asset-backed securities, investments in alternative and specialty funds, and weather derivatives. The NAV used to measure the fair value of the Company's other investments are generally derived from the underlying investments held within the funds. Although the Company does not have direct access to detailed financial information related to the underlying investments of the funds, the Company obtains and reviews fund financial statements, internal control review reports, and industry benchmarking reports to determine the reasonability of the NAV of the funds. There were no material changes in the Company's valuation techniques for the six months ended June 30, 2014.

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except for ratios, share and per share amounts)

4. Fair value measurement, cont'd.

Other assets and other liabilities measured at fair value include assets of $11.0 million (2013 - $14.0 million) and liabilities of $10.3 million (2013 - $19.6 million) related to proprietary, non-exchange traded derivative-based risk management products used in the Company's weather risk management business, and hedging and trading activities related to these risks. In instances where market prices are not available, the Company may use industry or internally developed valuation techniques such as historical analysis and simulation modeling to determine fair value and are considered Level 3.

Observable and unobservable inputs to these valuation techniques vary by contract requirements and commodity type, are validated using market-based or independently sourced parameters where applicable and may typically include the following, if applicable, dependent on contract requirements and commodity type:

- Observable inputs: contract price, notional, option strike, term to expiry, interest rate, contractual limits;
- Unobservable inputs: correlation; and
- Both observable and unobservable: forward commodity price, forward weather curve.

The Company's weather curves are determined by taking the average payouts for each transaction within its portfolio utilizing detrended historical weather measurements. The Company's commodity curves are determined using historical market data scaled to currently observed market prices. The range of each unobservable input could vary based on the specific commodity, including, but not limited to natural gas, electricity, crude, liquids, temperature or precipitation. Due to the diversity of the portfolio, the range of unobservable inputs could be wide-spread as reflected in the below table on quantitative information.

If a trade has one or more significant valuation inputs that are unobservable, such trades are initially valued at the transaction price, which is considered to be the best initial estimate of fair value. Subsequent to the initial valuation, the Company updates market observable inputs to reflect observable market changes. The unobservable inputs are validated at each reporting period and are only changed when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker or dealer quotations or other empirical market data.

Changes in any or all of the unobservable inputs listed above may contribute positively or negatively to the overall portfolio fair value depending upon the underlying position. In general, movements in weather curves are the largest contributing factor that impact fair value.

Below is a summary of quantitative information regarding the significant unobservable inputs used in determining the fair value of the net weather and energy related derivative asset classified in Level 3 which is measured at fair value on a recurring basis at June 30, 2014:

	June 30, 2014					
	Fair Value (Level 3)	Valuation Techniques	Unobservable Inputs	Low	High	Weighted Average or Actual
	(U.S. dollars in thousands, except for correlation and commodity curve)					
Net weather and energy related derivative asset	$ 708	Historical Analysis and Simulation	Correlation	0	1	Actual
			Weather curve	$(1,200)	$1,200	Actual
			Commodity curve	$ 11.59	$91.64	Actual

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except for ratios, share and per share amounts)

4. Fair value measurement, cont'd.

There were no impairment losses on Level 3 securities recognized in earnings for the three and six months ended June 30, 2014 or 2013.

The following tables present a reconciliation of the beginning and ending balances for all assets and liabilities measured at fair value on a recurring basis using Level 3 inputs during the three months ended June 30, 2014 and 2013:

	Three Months Ended June 30, 2014				
	Fixed maturity investments	Other investments	Other assets	Total assets	Other liabilities
Level 3, beginning of period	$ 8,985	$ 621,914	$ 8,532	$ 639,431	$(13,448)
Total equity income and realized gains included in earnings	36	16,286	—	16,322	—
Total equity losses and losses included in earnings	—	(5,501)	—	(5,501)	—
Total income included in other underwriting (loss) income	—	—	11,241	11,241	12,622
Total loss included in other underwriting (loss) income	—	—	(11,722)	(11,722)	(12,177)
Change in unrealized gains included in other comprehensive income (loss)	89	—	—	89	—
Change in unrealized losses included in other comprehensive income (loss)	(36)	—	—	(36)	—
Purchases	—	21,867	—	21,867	—
Issues	—	—	2,941	2,941	(5,883)
Sales	(856)	(5,924)	—	(6,780)	—
Settlements	—	—	—	—	8,602
Transfers in to Level 3	2,886	—	—	2,886	—
Transfers out of Level 3	(1,589)	—	—	(1,589)	—
Level 3, end of period	$ 9,515	$ 648,642	$ 10,992	$ 669,149	$(10,284)

	Three Months Ended June 30, 2013				
	Fixed maturity investments	Other investments	Other assets	Total assets	Other liabilities
Level 3, beginning of period	$ 9,814	$ 554,715	$ 6	$ 564,535	$ (12)
Total equity income and realized gains included in earnings	43	16,419	—	16,462	—
Total equity losses and losses included in earnings	(2)	(9,639)	—	(9,641)	—
Total income included in other underwriting (loss) income	—	—	—	—	12
Total loss included in other underwriting (loss) income	—	—	(6)	(6)	—
Change in unrealized gains included in other comprehensive income (loss)	243	—	—	243	—
Change in unrealized losses included in other comprehensive income (loss)	(154)	—	—	(154)	—
Purchases	—	23,424	—	23,424	—
Sales	(2,276)	(15,526)	—	(17,802)	—
Transfers in to Level 3	383	—	—	383	—
Transfers out of Level 3	(505)	—	—	(505)	—
Level 3, end of period	$ 7,546	$ 569,393	$ —	$ 576,939	$ —

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except
for ratios, share and per share amounts)

4. Fair value measurement, cont'd.

The following table presents a reconciliation of the beginning and ending balances for all assets and liabilities measured at fair value on a recurring basis using Level 3 inputs during the six months ended June 30, 2014 and 2013:

	Six Months Ended June 30, 2014				
	Fixed maturity investments	Other investments	Other assets	Total assets	Other liabilities
Level 3, beginning of period	$ 7,328	$ 617,478	$ 14,038	$638,844	$(19,569)
Total equity income and realized gains included in earnings	53	35,472	—	35,525	—
Total equity losses and losses included in earnings	(26)	(11,146)	—	(11,172)	—
Total income included in other underwriting (loss) income	—	—	15,216	15,216	20,048
Total loss included in other underwriting (loss) income	—	—	(18,610)	(18,610)	(16,953)
Change in unrealized gains included in other comprehensive income (loss)	200	—	—	200	—
Change in unrealized losses included in other comprehensive income (loss)	(151)	—	—	(151)	—
Purchases	—	26,541	—	26,541	—
Issues	—	—	3,581	3,581	(7,163)
Sales	(1,040)	(19,703)	—	(20,743)	—
Settlements	—	—	(3,233)	(3,233)	13,353
Transfers in to Level 3	5,003	—	—	5,003	—
Transfers out of Level 3	(1,852)	—	—	(1,852)	—
Level 3, end of period	$ 9,515	$ 648,642	$ 10,992	$669,149	$(10,284)

	Six Months Ended June 30, 2013				
	Fixed maturity investments	Other investments	Other assets	Total assets	Other liabilities
Level 3, beginning of period	$ 8,497	$ 517,546	$ 882	$526,925	$ (1,922)
Total equity income and realized gains included in earnings	48	41,902	—	41,950	—
Total equity losses and losses included in earnings	(2)	(12,063)	—	(12,065)	—
Total income included in other underwriting (loss) income	—	—	—	—	2,354
Total loss included in other underwriting (loss) income	—	—	(1,182)	(1,182)	—
Change in unrealized gains included in other comprehensive income (loss)	327	—	—	327	—
Change in unrealized losses included in other comprehensive income (loss)	(208)	—	—	(208)	—
Purchases	—	45,414	—	45,414	—
Issues	—	—	300	300	(432)
Sales	(4,202)	(23,406)	—	(27,608)	—
Transfers in to Level 3	3,647	—	—	3,647	—
Transfers out of Level 3	(561)	—	—	(561)	—
Level 3, end of period	$ 7,546	$ 569,393	$ —	$576,939	$ —

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except for ratios, share and per share amounts)

5. Earnings per share

The two-class method utilized by the Company is an earnings allocation formula that determines earnings per share for the holders of Endurance Holdings' ordinary shares (also referred to as "common shares") and participating common shares, which includes unvested restricted shares that receive cash dividends, according to dividends declared and participation rights in undistributed earnings. Net income available to common and participating common shareholders is reduced by the amount of dividends declared in the current period and by the contractual amount of dividends that must be paid for the current period related to the Company's common and participating common shares. Any remaining undistributed earnings are allocated to the common and participating common shareholders to the extent that each security may share in earnings as if all of the earnings for the period had been distributed. In periods of loss, no losses are allocated to participating common shareholders. Instead, all such losses are allocated solely to the common shareholders.

Basic earnings per common share are calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding. The weighted average number of common shares excludes any dilutive effect of outstanding options and convertible securities such as unvested restricted shares.

Diluted earnings per common share are based on the weighted average number of common shares and assumes the exercise of all dilutive stock options and the vesting or conversion of all convertible securities such as unvested restricted shares using the two-class method described above.

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Numerator:				
Net income available to common and participating common shareholders	$ 74,975	$ 52,831	$ 171,267	$ 144,942
Less amount allocated to participating common shareholders(1)	(2,212)	(1,132)	(4,988)	(2,745)
Net income allocated to common shareholders	$ 72,763	$ 51,699	$ 166,279	$ 142,197
Denominator:				
Weighted average shares – basic	43,350,911	42,621,301	43,265,200	42,526,686
Share equivalents:				
Options	—	—	283	—
Restricted share units	—	229	143	679
Weighted average shares – diluted	43,350,911	42,621,530	43,265,626	42,527,365
Basic earnings per common share	$ 1.68	$ 1.21	$ 3.84	$ 3.34
Diluted earnings per common share	$ 1.68	$ 1.21	$ 3.84	$ 3.34

(1) Represents earnings attributable to holders of unvested restricted shares issued under the Company's equity compensation plan that are considered participating. In periods of loss, no losses are allocated to participating common shareholders (unvested restricted shares).

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except for ratios, share and per share amounts)

5. Earnings per share, cont'd.

Endurance Holdings declared a dividend of $0.484375 per Series A preferred share and $0.46875 per Series B preferred share on May 21, 2014 (2013 - Series A: $0.484375, Series B: $0.46875). The Series A and Series B preferred share dividends were paid on June 16, 2014 to shareholders of record on June 2, 2014. Endurance Holdings also declared a dividend of $0.34 per common share on May 21, 2014 (2013 - $0.32). The dividend was paid on June 30, 2014 to shareholders of record on June 16, 2014.

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Dividends declared per Series A preferred share	$0.484375	$0.484375	$0.968750	$0.968750
Dividends declared per Series B preferred share	$0.468750	$0.468750	$0.937500	$0.937500
Dividends declared per common share	$ 0.34	$ 0.32	$ 0.68	$ 0.64

6. Accumulated other comprehensive income

The following table presents the changes in accumulated other comprehensive income balances by component for the three months ended June 30, 2014 and 2013:

For the Three Months Ended June 30, 2014	Loss on cash flow hedge	Unrealized gains on available-for-sale securities	Foreign currency translation adjustments	Total
Beginning balance	$ (1,832)	$ 69,330	$ 21,861	$ 89,359
Other comprehensive income before reclassifications	—	39,676	8,998	48,674
Amounts reclassified from accumulated other comprehensive income(1)	22	(2,017)	—	(1,995)
Net current period other comprehensive income	22	37,659	8,998	46,679
Ending balance	$ (1,810)	$ 106,989	$ 30,859	$136,038

(1) All amounts are net of tax.

For the Three Months Ended June 30, 2013	Loss on cash flow hedge	Unrealized gains on available-for-sale securities	Foreign currency translation adjustments	Total
Beginning balance	$(1,928)	$ 136,885	$ 2,482	$ 137,439
Other comprehensive loss before reclassifications	—	(96,457)	219	(96,238)
Amounts reclassified from accumulated other comprehensive income(1)	29	(9,792)	—	(9,763)
Net current period other comprehensive loss	29	(106,249)	219	(106,001)
Ending balance	$(1,899)	$ 30,636	$ 2,701	$ 31,438

(1) All amounts are net of tax.

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except for ratios, share and per share amounts)

6. Accumulated other comprehensive income, cont'd.

The following table presents the changes in accumulated other comprehensive income balances by component for the six months ended June 30, 2014 and 2013:

	Six Months Ended June 30, 2014			
	Gains and losses on cash flow hedges	Unrealized gains and losses on available-for-sale securities	Foreign currency translation adjustments	Total
Beginning balance	$ (1,855)	$ 45,950	$ 18,636	$ 62,731
Other comprehensive income before reclassifications	—	67,341	12,223	79,564
Amounts reclassified from accumulated other comprehensive income(1)	45	(6,302)	—	(6,257)
Net current period other comprehensive income	45	61,039	12,223	73,307
Ending balance	$ (1,810)	$ 106,989	$ 30,859	$136,038

(1) All amounts are net of tax.

	Six Months Ended June 30, 2013			
	Gains and losses on cash flow hedges	Unrealized gains and losses on available-for-sale securities	Foreign currency translation adjustments	Total
Beginning balance	$ (1,944)	$ 141,731	$ 12,676	$ 152,463
Other comprehensive loss before reclassifications	—	(96,360)	(9,975)	(106,335)
Amounts reclassified from accumulated other comprehensive income(1)	45	(14,735)	—	(14,690)
Net current period other comprehensive loss	45	(111,095)	(9,975)	(121,025)
Ending balance	$ (1,899)	$ 30,636	$ 2,701	$ 31,438

(1) All amounts are net of tax.

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except
for ratios, share and per share amounts)

6. Accumulated other comprehensive income, cont'd.

The following table presents the significant items reclassified out of accumulated other comprehensive income during the three months ended June 30, 2014 and 2013:

Three Months Ended June 30, 2014

Details about accumulated other comprehensive income components	Amount reclassified from accumulated other comprehensive income	Affected line item in the Unaudited Condensed Consolidated Statements of Income and Comprehensive Income (Loss)
Loss on cash flow hedge - Debt	$ 22	Interest expense
	22	Total before income taxes
	—	Income tax expense
	$ 22	Total net of income taxes
Unrealized gains on available-for-sale securities	$ (2,068)	Net realized and unrealized investment gains
	198	Net impairment losses recognized in earnings
	(1,870)	Total before income taxes
	(147)	Income tax benefit
	$ (2,017)	Total net of income taxes

Three Months Ended June 30, 2013

Details about accumulated other comprehensive income components	Amount reclassified from accumulated other comprehensive income	Affected line item in the Unaudited Condensed Consolidated Statements of Income and Comprehensive Income (Loss)
Loss on cash flow hedge - Debt	$ 29	Interest expense
	29	Total before income taxes
	—	Income tax expense
	$ 29	Total net of income taxes
Unrealized gains on available-for-sale securities	$ (11,308)	Net realized and unrealized investment gains
	579	Net impairment losses recognized in earnings
	(10,729)	Total before income taxes
	937	Income tax expense
	$ (9,792)	Total net of income taxes

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except
for ratios, share and per share amounts)

6. Accumulated other comprehensive income, cont'd.

The following table presents the significant items reclassified out of accumulated other comprehensive income during the six months ended June 30, 2014 and 2013:

Six Months Ended June 30, 2014		
Details about accumulated other comprehensive income components	**Amount reclassified from accumulated other comprehensive income**	**Affected line item in the Unaudited Condensed Consolidated Statements of Income and Comprehensive Income (Loss)**
Gains and losses on cash flow hedges - Debt	$ 45	Interest expense
	45	Total before income taxes
	—	Income tax expense
	$ 45	Total net of income taxes
Unrealized (gains) losses on available-for-sale securities	$ (6,331)	Net realized and unrealized investment gains
	309	Net impairment losses recognized in earnings
	(6,022)	Total before income taxes
	(280)	Income tax benefit
	$ (6,302)	Total net of income taxes

Six Months Ended June 30, 2013		
Details about accumulated other comprehensive income components	**Amount reclassified from accumulated other comprehensive income**	**Affected line item in the Unaudited Condensed Consolidated Statements of Income and Comprehensive Income (Loss)**
Gains and losses on cash flow hedges - Debt	$ 45	Interest expense
	45	Total before income taxes
	—	Income tax expense
	$ 45	Total net of income taxes
Unrealized gains on available-for-sale securities	$ (17,265)	Net realized and unrealized investment gains
	1,385	Net impairment losses recognized in earnings
	(15,880)	Total before income taxes
	1,145	Income tax expense
	$ (14,735)	Total net of income taxes

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except
for ratios, share and per share amounts)

7. Derivatives

The Company regularly transacts in certain derivative-based weather risk management products primarily to address weather and energy risks on behalf of third parties. The markets for these derivatives are generally linked to energy and agriculture commodities, weather and other natural phenomena. Generally, the Company's current portfolio of such derivative contracts is of short duration and such contracts are predominantly seasonal in nature. The Company invests a portion of its fixed maturity assets with third party investment managers with investment guidelines that permit the use of derivative instruments. The Company may enter derivative transactions directly or as part of strategies employed by its external investment managers.

The Company's derivative instruments are recorded in the Condensed Consolidated Balance Sheets at fair value, with changes in fair value and gains and losses recognized in net realized and unrealized investment gains, net foreign exchange losses and other underwriting (loss) income in the Condensed Consolidated Statements of Income and Comprehensive Income (Loss).

The Company's derivatives are not designated as hedges under current accounting guidance.

The Company's objectives for holding these derivatives are as follows:

Interest Rate Futures, Swaps, Swaptions and Options - to manage exposure to interest rate risk, which can include increasing or decreasing its exposure to this risk through modification of the portfolio composition and duration.

Foreign Exchange Forwards, Futures and Options - as part of overall currency risk management and investment strategies.

Credit Default Swaps - to manage market exposures. The Company may assume or economically hedge credit risk through credit default swaps to replicate or hedge investment positions. The original term of these credit default swaps is generally five years or less.

Commodity Futures and Options - to economically hedge certain underwriting risks.

To-Be-Announced Mortgage-backed Securities ("TBAs") - to enhance investment performance and as part of overall investment strategy. TBAs represent commitments to purchase or sell a future issuance of agency mortgage-backed securities. For the period between purchase of a TBA and issuance of the underlying securities, the Company's position is accounted for as a derivative.

Energy and Weather Contracts – to address weather and energy risks. The Company may purchase or sell contracts with financial settlements based on the performance of an index linked to a quantifiable weather element, such as temperature, precipitation, snowfall or windspeed, and structures with multiple risk triggers indexed to a quantifiable weather element and a weather sensitive commodity price, such as temperature and electrical power or natural gas. Generally, the Company's current portfolio of energy and weather derivative contracts is of comparably short duration and such contracts are predominantly seasonal in nature.

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except
for ratios, share and per share amounts)

7. Derivatives, cont'd.

The fair values and the related notional values of derivatives at June 30, 2014 and December 31, 2013 are noted below.

	June 30, 2014		December 31, 2013	
	Fair Value	Notional Principal Amount	Fair Value	Notional Principal Amount
Derivatives recorded in other assets				
Foreign exchange forward contracts	$ 59	$16,763	$ 251	$ 19,269
Credit default swaps	22	1,815	—	—
Interest rate swaps	—	—	124	16,100
Interest rate swaptions	—	23,238	39	24,338
TBAs	68,815	67,000	93,820	93,840
Energy and weather contracts	10,992	42,965	14,038	53,986
Total recorded in other assets	$79,888		$108,272	
Derivatives recorded in other liabilities				
Foreign exchange forward contracts	$ 201	$23,632	$ 172	$ 15,861
Interest rate swaps	670	22,556	933	12,193
Interest rate swaptions	—	23,238	543	361,455
Interest rate futures	—	—	17	103,935
TBAs	16,279	16,000	28,218	28,000
Energy and weather contracts	10,284	65,800	19,569	66,113
Total recorded in other liabilities	$27,434		$ 49,452	
Net derivative asset	$52,454		$ 58,820	

At June 30, 2014, the Company's derivative assets of $79.9 million (December 31, 2013 - $108.3 million) and liabilities of $27.4 million (December 31, 2013 - $49.4 million) are subject to master netting agreements, which provide for the ability to settle the derivative asset and liability with each counterparty on a net basis. Interest rate futures are not subject to a master netting agreement. At June 30, 2014 and December 31, 2013, none of the Company's derivative instruments were recorded on a net basis in the Condensed Consolidated Balance Sheets.

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except
for ratios, share and per share amounts)

7. Derivatives, cont'd.

The gains and losses on the Condensed Consolidated Statements of Income and Comprehensive Income (Loss) for derivatives for the three and six months ended June 30, 2014 and 2013 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Total included in net foreign exchange losses from foreign exchange forward contracts	$ (172)	$ 169	$ (399)	$ 330
Futures contracts	$ 115	$ (47)	$ 135	$ (47)
Credit default swaps	14	114	14	116
Interest rate swaps	(316)	(279)	(1,081)	(161)
Interest rate swaptions	(1)	(276)	428	(101)
TBAs	1,531	(448)	2,456	(465)
Total included in net realized and unrealized investment gains	$ 1,343	$ (936)	$ 1,952	$ (658)
Total included in other underwriting (loss) income from energy and weather contracts	$ (40)	$ 6	$ (299)	$1,172
Total gains (losses) from derivatives	$ 1,131	$ (761)	$ 1,254	$ 844

8. Stock-based employee compensation and other stock plans

The Company has a stock-based employee compensation plan, which provides the Company with the ability to grant options to purchase the Company's ordinary shares, share appreciation rights, restricted shares, share bonuses and other equity incentive awards to key employees.

No options were granted or expired during the quarter ended June 30, 2014. During the three months ended June 30, 2013, 800,000 options were granted with a weighted average grant date fair value of $10.2 million. The Company uses the Black-Scholes-Merton formula to estimate the value of stock options granted. No options expired during the three months ended June 30, 2013. During the three months ended June 30, 2014, 15,000 (2013 - 12,501) options were exercised. During the three months ended June 30, 2014, 160,000 (2013 - 160,000) options vested. The total intrinsic value of options exercised during the quarter ended June 30, 2014 was $0.3 million (2013 - $0.3 million). The Company received proceeds of $0.5 million (2013 - $0.3 million) from the exercise of options during the quarter ended June 30, 2014. The Company issued new ordinary shares in connection with the exercise of the above options. For the quarter ended June 30, 2014, compensation costs recognized in earnings for all options totaled $0.9 million (2013 - $2.4 million). At June 30, 2014, compensation costs not yet recognized related to unvested stock options was $3.7 million (2013 - $7.8 million).

No options were granted or expired during the six months ended June 30, 2014. During the six months ended June 30, 2013, 800,000 options were granted with a weighted average grant date fair value of $10.2 million. No options expired during the six months ended June 30, 2013. During the six months ended June 30, 2014, 15,000 (2013 - 24,501) options were exercised. During the six months ended June 30, 2014, 160,000 (2013 - 160,000) options vested. The total intrinsic value of options exercised during the six months ended June 30, 2014 was $0.3 million (2013 - $0.5 million). The Company received proceeds of $0.5 million (2013 - $0.6 million) from the exercise of options during the six months ended June 30, 2014. The Company issued new ordinary shares in connection with the exercise of the above options. For the six months ended June 30, 2014, compensation costs recognized in earnings for all options totaled $2.0 million (2013 - $2.4 million).

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except for ratios, share and per share amounts)

8. Stock-based employee compensation and other stock plans, cont'd.

During the quarter ended June 30, 2014, the Company granted an aggregate of 97,646 (2013 – 727,271) restricted shares with weighted average grant date fair values of $5.1 million (2013 - $35.1 million). During the quarter ended June 30, 2014, the aggregate fair value of restricted shares and restricted share units that vested was $8.3 million (2013 - $7.8 million). For the quarter ended June 30, 2014, compensation costs recognized in earnings for all restricted shares and restricted share units were $6.6 million (2013 - $8.8 million). At June 30, 2014, compensation costs not yet recognized related to unvested restricted shares and restricted share units was $31.8 million (2013 - $38.5 million).

During the six months ended June 30, 2014, the Company granted an aggregate of 433,417 (2013 – 1,070,655) restricted shares and restricted share units with weighted average grant date fair values of $22.7 million (2013 - $50.3 million). During the six months ended June 30, 2014, the aggregate fair value of restricted shares and restricted share units that vested was $18.5 million (2013 - $16.9 million). For the six months ended June 30, 2014, compensation costs recognized in earnings for all restricted shares and restricted share units were $15.8 million (2013 - $13.5 million).

The Company also has an Employee Share Purchase Plan under which employees of Endurance Holdings and certain of its subsidiaries may purchase Endurance Holdings' ordinary shares. For the quarter ended June 30, 2014, total expenses related to the Company's Employee Share Purchase Plan were approximately $55,000 (2013 - $44,000) and $109,000 (2013 - $82,000) for the six months ended June 30, 2014.

9. Segment reporting

The determination of the Company's business segments is based on how the Company monitors the performance of its underwriting operations. The Company has two reportable business segments, Insurance and Reinsurance, which are comprised of the following lines of business:

Insurance segment lines of business

- Agriculture
- Casualty and other specialty
- Professional lines
- Property

Reinsurance segment lines of business

- Catastrophe
- Property
- Casualty
- Professional lines
- Specialty

Management measures segment results on the basis of the combined ratio, which is obtained by dividing the sum of the net losses and loss expenses, acquisition expenses and general and administrative expenses by net premiums earned. When purchased within a single line of business, ceded reinsurance and recoveries are accounted for within that line of business. When purchased across multiple lines of business, ceded reinsurance and recoveries are allocated to the lines of business in proportion to the related risks assumed. The Company does not manage its assets by segment; accordingly, investment income and total assets are not allocated to the individual business segments. General and administrative expenses incurred by the segments are allocated directly. Remaining general and administrative expenses not directly incurred by the segments are allocated primarily based on estimated consumption, headcount and other variables deemed relevant to the allocation of such expenses. Ceded reinsurance and recoveries are recorded within the business segment to which they apply.

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except
for ratios, share and per share amounts)

9. Segment reporting, cont'd.

The following table provides a summary of segment revenues, results and reserves for losses and loss expenses for the three months ended June 30, 2014:

	Three Months Ended June 30, 2014		
	Insurance	Reinsurance	Total
Revenues			
Gross premiums written	$ 321,526	$ 367,899	$ 689,425
Ceded premiums written	(142,488)	(35,510)	(177,998)
Net premiums written	179,038	332,389	511,427
Net premiums earned	218,563	262,975	481,538
Other underwriting loss	—	(4,824)	(4,824)
	218,563	258,151	476,714
Expenses			
Net losses and loss expenses	149,567	109,629	259,196
Acquisition expenses	15,128	63,473	78,601
General and administrative expenses	47,237	39,218	86,455
	211,932	212,320	424,252
Underwriting income	$ 6,631	$ 45,831	$ 52,462
Net loss ratio	68.5%	41.7%	53.8%
Acquisition expense ratio	6.9%	24.1%	16.3%
General and administrative expense ratio	21.6%	14.9%	18.0%
Combined ratio	97.0%	80.7%	88.1%
Reserve for losses and loss expenses	$2,143,921	$1,819,472	$3,963,393

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except for ratios, share and per share amounts)

9. Segment reporting, cont'd.

The following table provides a summary of segment revenues, results and reserves for losses and loss expenses for the three months ended June 30, 2013:

	Three Months Ended June 30, 2013		
	Insurance	Reinsurance	Total
Revenues			
Gross premiums written	$ 276,941	$ 295,769	$ 572,710
Ceded premiums written	(85,439)	(22,650)	(108,089)
Net premiums written	191,502	273,119	464,621
Net premiums earned	267,878	275,457	543,335
Other underwriting income	—	888	888
	267,878	276,345	544,223
Expenses			
Net losses and loss expenses	215,844	143,214	359,058
Acquisition expenses	14,968	56,900	71,868
General and administrative expenses	43,524	37,835	81,359
	274,336	237,949	512,285
Underwriting (loss) income	$ (6,458)	$ 38,396	$ 31,938
Net loss ratio	80.6%	52.0%	66.1%
Acquisition expense ratio	5.6%	20.7%	13.2%
General and administrative expense ratio	16.2%	13.7%	15.0%
Combined ratio	102.4%	86.4%	94.3%
Reserve for losses and loss expenses	$2,242,894	$1,902,687	$4,145,581

The following table reconciles total segment results to income before income taxes for the three months ended June 30, 2014 and 2013:

	Three Months Ended June 30,	
	2014	2013
Total underwriting income	$52,462	$31,938
Net investment income	39,302	32,468
Net foreign exchange losses	(319)	(3,368)
Net realized and unrealized investment gains	3,411	10,372
Net impairment losses recognized in earnings	(198)	(579)
Amortization of intangibles	(1,623)	(1,625)
Interest expense	(9,732)	(9,052)
Income before income taxes	$83,303	$60,154

Table of Contents

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except for ratios, share and per share amounts)

9. Segment reporting, cont'd.

The following table provides gross and net premiums written by line of business for the three months ended June 30, 2014 and 2013:

Business Segment	Gross premiums written 2014	Net premiums written 2014	Gross premiums written 2013	Net premiums written 2013
Insurance				
Agriculture	$ 80,540	$ 45,826	$131,633	$ 84,537
Casualty and other specialty	146,728	89,765	87,614	63,373
Professional lines	74,650	29,846	38,296	27,788
Property	19,608	13,601	19,398	15,804
Total Insurance	321,526	179,038	276,941	191,502
Reinsurance				
Catastrophe	158,372	123,411	155,431	138,041
Property	42,887	42,886	48,384	44,516
Casualty	30,875	30,868	54,417	54,419
Professional lines	84,117	84,117	12,528	12,528
Specialty	51,648	51,107	25,009	23,615
Total Reinsurance	367,899	332,389	295,769	273,119
Total	$689,425	$511,427	$572,710	$464,621

Table of Contents

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except
for ratios, share and per share amounts)

9. Segment reporting, cont'd.

The following table provides a summary of the segment revenues and results for the six months ended June 30, 2014:

	Six Months Ended June 30, 2014		
	Insurance	**Reinsurance**	**Total**
Revenues			
Gross premiums written	$ 973,802	$ 873,138	$1,846,940
Ceded premiums written	(451,737)	(85,071)	(536,808)
Net premiums written	522,065	788,067	1,310,132
Net premiums earned	362,584	515,220	877,804
Other underwriting loss	—	(6,062)	(6,062)
	362,584	509,158	871,742
Expenses			
Net losses and loss expenses	238,100	197,992	436,092
Acquisition expenses	27,389	123,369	150,758
General and administrative expenses	88,973	70,688	159,661
	354,462	392,049	746,511
Underwriting income	$ 8,122	$ 117,109	$ 125,231
Net loss ratio	65.7%	38.5%	49.6%
Acquisition expense ratio	7.6%	23.9%	17.2%
General and administrative expense ratio	24.5%	13.7%	18.2%
Combined ratio	97.8%	76.1%	85.0%

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except for ratios, share and per share amounts)

9. Segment reporting, cont'd.

The following table provides a summary of the segment revenues and results for the six months ended June 30, 2013:

	Six Months Ended June 30, 2013		
	Insurance	Reinsurance	Total
Revenues			
Gross premiums written	$ 929,884	$ 820,188	$1,750,072
Ceded premiums written	(333,688)	(42,848)	(376,536)
Net premiums written	596,196	777,340	1,373,536
Net premiums earned	419,030	544,422	963,452
Other underwriting income	—	1,637	1,637
	419,030	546,059	965,089
Expenses			
Net losses and loss expenses	315,308	262,720	578,028
Acquisition expenses	29,584	113,920	143,504
General and administrative expenses	79,151	68,686	147,837
	424,043	445,326	869,369
Underwriting (loss) income	$ (5,013)	$ 100,733	$ 95,720
Net loss ratio	75.2%	48.3%	60.0%
Acquisition expense ratio	7.1%	20.9%	14.9%
General and administrative expense ratio	18.9%	12.6%	15.3%
Combined ratio	101.2%	81.8%	90.2%

The following table reconciles total segment results to income before income taxes for the six months ended June 30, 2014 and 2013, respectively:

	Six Months Ended June 30,	
	2014	2013
Total underwriting income	$125,231	$ 95,720
Net investment income	80,292	81,773
Net foreign exchange losses	(3,283)	(6,295)
Net realized and unrealized investment gains	8,283	16,607
Net impairment losses recognized in earnings	(309)	(1,385)
Amortization of intangibles	(3,240)	(3,726)
Interest expense	(18,783)	(18,090)
Income before income taxes	$188,191	$164,604

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except
for ratios, share and per share amounts)

9. Segment reporting, cont'd.

The following table provides gross and net premiums written by line of business for the six months ended June 30, 2014 and 2013:

Business Segment	Gross premiums written 2014	Net premiums written 2014	Gross premiums written 2013	Net premiums written 2013
Insurance				
Agriculture	$ 608,434	$ 327,471	$ 696,107	$ 425,667
Casualty and other specialty	221,623	131,486	144,081	106,634
Professional lines	113,430	44,416	59,260	41,991
Property	30,315	18,692	30,436	21,904
Total Insurance	973,802	522,065	929,884	596,196
Reinsurance				
Catastrophe	285,020	202,374	303,297	269,439
Property	209,300	209,208	196,795	192,927
Casualty	115,857	114,260	183,809	182,382
Professional lines	109,736	109,736	24,835	24,835
Specialty	153,225	152,489	111,452	107,757
Total Reinsurance	873,138	788,067	820,188	777,340
Total	$1,846,940	$1,310,132	$1,750,072	$1,373,536

10. Commitments and contingencies

Concentrations of credit risk. The Company's reinsurance recoverables on paid and unpaid losses at June 30, 2014 and December 31, 2013 amounted to $751.8 million and $758.0 million, respectively. At June 30, 2014, substantially all reinsurance recoverables on paid and unpaid losses were due from the U.S. government or from reinsurers rated A- or better by A.M. Best Company Inc. or Standard & Poor's Corporation. At June 30, 2014 and December 31, 2013, the Company held collateral of $87.6 million and $14.2 million, respectively, related to its ceded reinsurance agreements.

Major production sources. The following table shows the percentage of net premiums written generated through the Company's largest brokers for the six months ended June 30, 2014 and 2013, respectively:

Broker	2014	2013
Marsh & McLennan Companies, Inc.	22.1%	19.5%
Aon Benfield	16.0%	15.3%
Willis Companies	11.8%	9.8%
Total of largest brokers	49.9%	44.6%

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except
for ratios, share and per share amounts)

10. Commitments and contingencies, cont'd.

Letters of credit. As of June 30, 2014, the Company had issued letters of credit of $216.8 million (December 31, 2013 – $260.3 million) under its credit facility in favor of certain ceding companies to collateralize obligations.

On January 17, 2014, the Company and certain designated subsidiaries of the Company entered into a $50.0 million revolving letter of credit reimbursement agreement ("LOC Agreement") and cash collateral agreement with Australia and New Zealand Banking Group Limited. As of June 30, 2014, the Company had issued letters of credit of $1.4 million (December 31, 2013 - nil) under the LOC Agreement. For letters of credit issued under the LOC Agreement, the Company is required to pay a fee that is negotiated at the time of issuance of the letter of credit. Letters of credit issued under the LOC Agreement are required to be collateralized with cash or investments.

Agreement with Equity Investors. On June 2, 2014, the Company entered into an agreement (the "Agreement") terminating a prior equity commitment letter, dated January 28, 2014. In connection with such termination, the Company extended to CVC Capital Partners Advisory (U.S.), Inc. ("CVC") and certain permitted assignees of CVC (collectively, the "Equity Option Investors") an equity investment option in the event that, on or prior to December 31, 2014, the Company enters into a definitive written agreement to acquire, or acquires, 95% or more of the issued and outstanding Aspen Insurance Holdings Limited ("Aspen") ordinary shares (the "Equity Investment Option"). Pursuant to the Equity Investment Option, if exercised, the Equity Option Investors would purchase $250.0 million of newly issued Company ordinary shares at a price of $50.03 per ordinary share, as adjusted for any stock splits, stock dividends or combinations prior to the closing of the Equity Investment Option. The Equity Investment Option would be exercisable for the sixty (60) day period following the closing of the Company's acquisition of Aspen.

The Equity Option Investors would have certain preemptive rights with respect to future share issuances by the Company, and the purchased ordinary shares would be subject to lock-up restrictions that would limit the right of the Equity Option Investors to transfer the shares for 12 months following the exercise of the Equity Investment Option, subject to certain exceptions.

In addition to the purchase of Company ordinary shares, upon the closing of the Equity Investment Option, the Company would also grant the Equity Option Investors, on a pro rata basis, warrants to purchase a number of additional Company ordinary shares equal to 38.5% of the total number of Company ordinary shares acquired by the Equity Option Investors in connection with the Equity Investment Option, at an exercise price equal to $58.86 per share, as adjusted for any stock splits, stock dividends or combinations prior to the closing of the Equity Investment Option. The warrants would have a term of ten years from the date of the closing of the Equity Investment Option.

Upon the closing of the Equity Investment Option, CVC would have the right to nominate one individual to serve as a director of the Company, which individual shall qualify as an independent director for purposes of the NYSE rules and, except for two specified individuals, shall be subject to the approval of the Company's board of directors (such approval not to be unreasonably withheld).

**ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED**
(Amounts in tables expressed in thousands of United States dollars, except
for ratios, share and per share amounts)

10. Commitments and contingencies, cont'd.

Pursuant to the Agreement, the Company also granted the Equity Option Investors a right of first refusal in the event the Company proposes to raise, on a private basis, equity capital through the sale of equity securities or securities convertible into or exchangeable or exercisable for equity securities of the Company or other equity-linked securities, the purpose of which is to partially fund the cash portion of an acquisition of Aspen completed, or for which a definitive written agreement is entered into, on or prior to December 31, 2014, or to refinance any debt incurred by the Company in connection with any such acquisition (only to the extent the proceeds of any such refinancing are specifically earmarked for such purposes). This right of first refusal is subject to certain exceptions, including with respect to equity purchased by the Company's Chief Executive Officer of up to $25.0 million and by certain other specified equity investors of up to $100.0 million. The Company does not currently intend to raise any equity capital that would be subject to the right of first refusal, but reserves the right to do so.

The Company has also agreed that, in the event any person or entity (other than certain funds advised by CVC or their affiliates) enters into a definitive written agreement to acquire or acquires more than 40% of the capital stock of the Company on or prior to December 31, 2014, the Company will pay CVC an amount equal to $26.3 million upon the closing of such transaction, less the amount of any previously reimbursed expenses.

The Charman Agreement. John R. Charman, the Company's Chief Executive Officer, and the Company entered into an agreement on June 2, 2014, pursuant to which Mr. Charman committed to purchase, subject to the receipt of any required regulatory approvals and the completion of the Company's acquisition of Aspen, $25.0 million of newly issued Company common shares at a price per share equal to $53.51, as adjusted for any stock splits, stock dividends or combinations prior to the closing of such investment.

Investment commitments. As of June 30, 2014 and December 31, 2013, the Company had pledged cash and cash equivalents and fixed maturity investments of $128.7 million and $146.1 million, respectively, in favor of certain ceding companies to collateralize obligations. As of June 30, 2014 and December 31, 2013, the Company had also pledged $250.2 million and $302.7 million of its cash and fixed maturity investments as required to meet collateral obligations for $216.8 million and $260.3 million, respectively, in letters of credit outstanding under its credit facility and LOC Agreement. In addition, as of June 30, 2014 and December 31, 2013, cash and fixed maturity investments with fair values of $274.6 million and $273.7 million were on deposit with U.S. state regulators, respectively.

The Company is subject to certain commitments with respect to other investments at June 30, 2014 and December 31, 2013. See Note 3.

Reinsurance commitments. In the ordinary course of business, the Company periodically enters into reinsurance agreements that include terms which could require the Company to collateralize certain of its obligations.

Employment agreements. The Company has entered into employment agreements with certain officers that provide for equity incentive awards, executive benefits and severance payments under certain circumstances.

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except
for ratios, share and per share amounts)

10. Commitments and contingencies, cont'd.

Operating leases. The Company leases office space and office equipment under operating leases. Future minimum lease commitments at June 30, 2014 are as follows:

Twelve months ended June 30,	Amount
2015	$ 15,984
2016	14,379
2017	12,157
2018	11,882
2019	10,422
2020 and thereafter	39,173
	$103,997

Total net lease expense under operating leases for the six months ended June 30, 2014 was $8.2 million (2013 – $7.1 million).

Legal proceedings. The Company is party to various legal proceedings generally arising in the normal course of its business. While any proceeding contains an element of uncertainty, the Company does not believe that the eventual outcome of any litigation or arbitration proceeding to which it is presently a party could have a material adverse effect on its financial condition or business. Pursuant to the Company's insurance and reinsurance agreements, disputes are generally required to be settled by arbitration.

11. Debt

On April 19, 2012, the Company and certain designated subsidiaries of the Company entered into a $700.0 million four-year revolving credit facility with JPMorgan Chase Bank, N.A. ("JPMorgan") as administrative agent ("Credit Facility"). As of June 30, 2014, there were no borrowings under this facility and letters of credit outstanding under the Credit Facility were $216.8 million (December 31, 2013 – $260.3 million).

On June 25, 2014, the Company entered into the First Amendment (the "Amendment") to the Credit Facility. The Amendment also amends the Security Agreement, dated as of April 19, 2012 (the "Security Agreement"), among the Company and various designated subsidiaries of the Company, Deutsche Bank Trust Company America, as collateral agent, and JPMorgan. The Amendment contains certain amendments to the Credit Facility and the Security Agreement to facilitate the proposed acquisition of Aspen and to change certain other provisions of the Credit Facility by, among other things, increasing the maximum permitted leverage ratio (calculated as provided in the Credit Facility) from 0.35:1.00 to 0.40:1.00 until the last day of the third full fiscal quarter following the consummation of any acquisition of Aspen, increasing the permitted amount of letters of credit and unsecured indebtedness and increasing the threshold amounts for cross-defaults, judgment defaults, and defaults under the Employee Retirement Income Security Act of 1974, as amended. Certain of the amendments would have become effective only upon consummation of an acquisition of Aspen.

ENDURANCE SPECIALTY HOLDINGS LTD.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS - CONTINUED
(Amounts in tables expressed in thousands of United States dollars, except
for ratios, share and per share amounts)

11. Debt, cont'd.

On June 2, 2014, the Company entered into a commitment letter with Morgan Stanley Senior Funding, Inc. (the "Commitment Letter"). Pursuant to the Commitment Letter, Morgan Stanley Senior Funding, Inc., as lead arranger, committed to provide to the Company, subject to certain conditions, senior unsecured bank financing of up to $1.0 billion under an unsecured 364-day bridge facility (the "Bridge Facility"), which was to be used to finance a portion of the cash consideration to be paid in connection with the Company's proposed acquisition of Aspen and related costs and expenses. As of June 30, 2014, there were no borrowings under the Bridge Facility. Upon the termination by the Company of its offer to acquire Aspen, the Bridge Facility expired pursuant to its terms.

12. Subsequent event

On July 30, 2014, the Company terminated its offer to acquire Aspen. Upon the termination of the offer to acquire Aspen, the Bridge Facility expired pursuant to its terms.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of the financial condition and results of operations for the three and six months ended June 30, 2014 of Endurance Specialty Holdings Ltd. ("Endurance Holdings") and its wholly-owned subsidiaries (collectively, the "Company"). This discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and related notes contained in this Quarterly Report on Form 10-Q (this "Form 10-Q") as well as the audited consolidated financial statements and related notes for the fiscal year ended December 31, 2013, the discussions of critical accounting policies and the qualitative and quantitative disclosure about market risk contained in Endurance Holdings' Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (the "2013 Form 10-K").

Some of the information contained in this discussion and analysis or set forth elsewhere in this Form 10-Q, including information with respect to the Company's plans and strategy for its business, includes forward-looking statements that involve risk and uncertainties. Please see the section "Cautionary Statement Regarding Forward-Looking Statements" below for more information on factors that could cause actual results to differ materially from the results described in or implied by any forward-looking statements contained in this discussion and analysis. You should review the "Risk Factors" set forth in the 2013 Form 10-K and this Form 10-Q for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained herein.

Overview

Endurance Holdings was organized as a Bermuda holding company on June 27, 2002 and has seven wholly-owned operating subsidiaries:

- Endurance Specialty Insurance Ltd. ("Endurance Bermuda"), domiciled in Bermuda with branch offices in Switzerland and Singapore;
- Endurance Reinsurance Corporation of America ("Endurance U.S. Reinsurance"), domiciled in Delaware;
- Endurance Worldwide Insurance Limited ("Endurance U.K."), domiciled in England;
- Endurance American Insurance Company ("Endurance American"), domiciled in Delaware;
- Endurance American Specialty Insurance Company ("Endurance American Specialty"), domiciled in Delaware;
- Endurance Risk Solutions Assurance Co. ("Endurance Risk Solutions"), domiciled in Delaware; and
- American Agri-Business Insurance Company ("American Agri-Business"), domiciled in Texas and managed by ARMtech Insurance Services, Inc. (together with American Agri-Business, "ARMtech").

The Company writes specialty lines of property and casualty insurance and reinsurance on a global basis and seeks to create a portfolio of specialty lines of business that are profitable and have limited correlation with one another. The Company's portfolio of specialty lines of business is organized into two business segments, Insurance and Reinsurance.

In the Insurance segment, the Company writes agriculture, casualty and other specialty, professional lines, and property insurance. In the Reinsurance segment, the Company writes catastrophe, property, casualty, and specialty reinsurance.

The Company's Insurance and Reinsurance segments both include property related coverages which provide insurance or reinsurance of an insurable interest in tangible property for property loss, damage or loss of use. In addition, the Company's Insurance and Reinsurance segments include various casualty insurance and reinsurance coverages which are primarily concerned with the losses caused by injuries to third parties, i.e., not the insured, or to property owned by third parties and the legal liability imposed on the insured resulting from such injuries.

Application of Critical Accounting Estimates

The Company's condensed consolidated financial statements are based on the selection of accounting policies and application of significant accounting estimates which require management to make significant estimates and assumptions. The Company believes that some of the more critical judgments in the areas of accounting estimates and assumptions that affect its financial condition and results of operations are related to the recognition of premiums written and ceded, reserves for losses and loss expenses, other-than-temporary impairments within the investment portfolio and fair value measurements of certain portions of the investment portfolio. For a detailed discussion of the Company's critical accounting estimates, please refer to the 2013 Form 10-K and the Notes to the Unaudited Condensed Consolidated Financial Statements in this Form 10-Q. There were no material changes in the application of the Company's critical accounting estimates subsequent to that report. Management has discussed the application of these critical accounting estimates with the Company's Board of Directors and the Audit Committee of the Board of Directors.

Table of Contents

Consolidated Results of Operations – For the Three Months Ended June 30, 2014 and 2013

Results of operations for the three months ended June 30, 2014 and 2013 were as follows:

	Three Months Ended June 30,		
	2014	2013	Change[1]
	(U.S. dollars in thousands, except for ratios)		
Revenues			
Gross premiums written	$ 689,425	$ 572,710	20.4%
Ceded premiums written	(177,998)	(108,089)	64.7%
Net premiums written	511,427	464,621	10.1%
Net premiums earned	481,538	543,335	(11.4)%
Net investment income	39,302	32,468	21.0%
Net realized and unrealized investment gains	3,411	10,372	(67.1)%
Net impairment losses recognized in earnings	(198)	(579)	(65.8)%
Other underwriting (loss) income	(4,824)	888	NM(2)
Total revenues	519,229	586,484	(11.5)%
Expenses			
Net losses and loss expenses	259,196	359,058	(27.8)%
Acquisition expenses	78,601	71,868	9.4%
General and administrative expenses	86,455	81,359	6.3%
Amortization of intangibles	1,623	1,625	(0.1)%
Net foreign exchange losses	319	3,368	(90.5)%
Interest expense	9,732	9,052	7.5%
Income tax expense (benefit)	140	(865)	NM(2)
Net income	$ 83,163	$ 61,019	36.3%
Net loss ratio	53.8%	66.1%	(12.3)
Acquisition expense ratio	16.3%	13.2%	3.1
General and administrative expense ratio	18.0%	15.0%	3.0
Combined ratio	88.1%	94.3%	(6.2)

(1) With respect to ratios, changes show increase or decrease in percentage points.
(2) Not meaningful.

Premiums

Gross premiums written in the three months ended June 30, 2014 were $689.4 million, an increase of $116.7 million, or 20.4%, compared to the same period in 2013. Net premiums written in the three months ended June 30, 2014 were $511.4 million, an increase of $46.8 million, or 10.1%. The increase in gross and net premiums written was driven by the following factors:

- An increase in gross and net premiums written in the professional line of business in the Reinsurance segment, due primarily to the extension of a significant contract, as well as new business generated by new underwriting teams that joined the Company in late 2013, partially offset by non-renewal of contracts that no longer met profitability targets;
- An increase in gross and net premiums written in the casualty and other specialty and professional lines of business in the Insurance segment, including marine and energy, excess casualty and various professional liability coverages, as a result of substantial investments to expand the Company's Insurance underwriting leadership and personnel over the last twelve months. Increases were partially offset by reductions in casualty business due to non-renewal of policies from continued restructuring and balancing to meet profitability targets and from increased reinsurance purchases across the Insurance segment portfolio;

- An increase in gross and net premiums written in the specialty line of business in the Reinsurance segment as a result of new trade credit, surety and international agriculture business written;
- A decline in gross and net premiums written in the agriculture line of business in the Insurance segment due to declines in commodity prices on spring crops, partially offset by growth in policy counts;
- A decline in gross and net premiums written in the casualty line of business in the Reinsurance segment due to non-renewal of business that no longer met profitability targets and reduced participation on certain contracts where pricing declined, partially offset by new business;
- A decline in net premiums written in the catastrophe line of business in the Reinsurance segment due to increased purchases of retrocessional coverage and price declines partially offset by new business; and
- An increase in ceded premiums written by the Company during the quarter ended June 30, 2014 as compared to the same period in 2013 across both the Insurance and Reinsurance segments. Ceded premiums written increased across all lines of business in the Insurance segment due to an increase in quota share reinsurance purchases, including a new whole account quota share treaty covering the entire Insurance segment’s book of business for 2014 and an increase in the professional lines quota share percentage in the current period. In addition, the Company purchased an excess of loss treaty covering the Insurance segment’s agriculture line of business at a lower attachment point compared to 2013, resulting in increased ceded premiums written. In the Reinsurance segment, ceded premium written increased as the Company purchased increased levels of protection within the catastrophe line of business, including an aggregate all perils excess of loss treaty and additional proportional retrocession.

Net premiums earned for the three months ended June 30, 2014 were $481.5 million, a decrease of $61.8 million, or 11.4%, from the second quarter of 2013 due to the increase in ceded premiums written.

Net Investment Income

The Company’s net investment income of $39.3 million increased by 21.0%, or $6.8 million, for the quarter ended June 30, 2014 as compared to the same period in 2013. This increase resulted primarily from an increase in mark to market gains on other investments during the quarter ended June 30, 2014 and an increase in the Company’s available for sale investments from June 30, 2013 to June 30, 2014. Net investment income during the second quarter of 2014 included net mark to market gains of $10.8 million on other investments, comprised of alternative funds and specialty funds, as compared to mark to market gains of $6.8 million in the second quarter of 2013. Investment income generated from the Company’s available for sale investments, which consist of fixed maturity investments, short-term investments and equity securities, increased by $3.0 million for the three months ended June 30, 2014 compared to the same period in 2013. Investment expenses, including investment management fees, for the three months ended June 30, 2014 were $3.6 million compared to $3.8 million for the same period in 2013.

The annualized net earned yield and total return of the investment portfolio for the three months ended June 30, 2014 and 2013 and the market yield and portfolio duration as of June 30, 2014 and 2013 were as follows:

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013
Annualized net earned yield(1)	2.47%	2.04%
Total return on investment portfolio(2)	1.52%	(1.22)%
Market yield(3)	1.63%	2.00%
Portfolio duration(4)	2.88 years	3.05 years

(1) The actual net earned income from the investment portfolio after adjusting for expenses and accretion of discount and amortization of premium from the purchase price divided by the average book value of assets.
(2) Net of investment manager fees; includes realized and unrealized gains and losses.
(3) The internal rate of return of the investment portfolio based on the given market price or the single discount rate that equates a security price (inclusive of accrued interest) for the portfolio with its projected cash flows. Excludes other investments and operating cash.
(4) Includes only cash and cash equivalents and fixed income investments managed by the Company’s investment managers.

During the second quarter of 2014, the yield on the benchmark three year U.S. Treasury bond fluctuated within a 25 basis point range, with a high of 0.99% and a low of 0.74%. Trading activity in the Company’s portfolio during the second quarter included reductions in U.S. government and government agencies securities, commercial mortgage-backed securities, and short-term investments, and increased allocations to corporate securities, collateralized obligations, residential mortgage-backed securities, equity securities, foreign government bonds, other investments, municipals, and government and agency guaranteed corporate securities. The duration of fixed income investments decreased to 2.88 years at June 30, 2014 from 3.11 years at December 31, 2013, primarily due to the decrease in interest rates, which increased the estimated rate of prepayments underlying the Company’s mortgage-backed securities portfolio, causing a reduction of the average expected maturity of these securities.

Net Realized and Unrealized Investment Gains

The Company’s investment portfolio is actively managed on a fair value basis to generate attractive economic returns and income. Movements in financial markets and interest rates influence the timing and recognition of net realized investment gains and losses as the portfolio is adjusted and rebalanced. Proceeds from sales of investments classified as available for sale during the three months ended June 30, 2014 were $950.1 million compared to $937.4 million during the same period a year ago. Net realized investment gains decreased during the three months ended June 30, 2014 compared to the same period in 2013.

Realized investment gains and losses and the change in the fair value of derivative financial instruments for the three months ended June 30, 2014 and 2013 were as follows:

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013
	(U.S. dollars in thousands)	
Gross realized gains on investment sales	$ 7,387	$ 16,591
Gross realized losses on investment sales	(5,319)	(5,283)
Change in fair value of derivative financial instruments	1,343	(936)
Net realized and unrealized investment gains	$ 3,411	$ 10,372

Net impairment losses recognized in earnings for the three months ended June 30, 2014 and 2013 were $0.2 million and $0.6 million, respectively.

Table of Contents

Net Foreign Exchange Gains and Losses

For the three months ended June 30, 2014, the Company remeasured its monetary assets and liabilities denominated in foreign currencies, which resulted in a net foreign exchange loss of $0.3 million compared to a net foreign exchange loss of $3.4 million for the same period of 2013. The current period net foreign exchange loss resulted from the offsetting impacts of the U.S. dollar weakening generally against the key global currencies and British Sterling strengthening applied against the Company's operations with U.S. dollar and British Sterling base currencies, respectively. In the prior year, the net foreign exchange gain resulted from offsetting exposures across the Company as the U.S. dollar strengthened against the Japanese Yen, Australian dollar and New Zealand dollar.

Net Losses and Loss Expenses

The Company's net loss ratio for the three months ended June 30, 2014 decreased compared to the same period in 2013, principally as a result of lower incurred losses across all lines of business in the Insurance segment and the catastrophe, property, and casualty lines of business in the Reinsurance segment. Improvement in the net loss ratio was due to decreased catastrophe losses compared to the prior year, and the strategic re-underwriting and re-balancing of the Company's underwriting portfolios, driven in part by the impact of underwriting teams added in the past year. This improvement was partially offset by decreased favorable prior year loss reserve development compared to the same period in 2013.

Favorable prior year loss reserve development was $54.2 million for the second quarter of 2014 compared to $62.8 million during the same period in 2013. In the second quarter of 2014, prior year loss reserves emerged favorably across all lines business of the Insurance and Reinsurance segments. In the Insurance segment, favorable reserve development in the second quarter of 2014 was higher than the second quarter of 2013 primarily in the casualty line of business due to lower than expected claims reported and favorable case reserve development. Favorable reserve development in the Reinsurance segment was lower than in 2013, primarily in the catastrophe, property and specialty lines of business.

The following table shows the net losses after adjustment for reinstatement premiums and other loss sensitive accruals recorded by the Company in connection with current calendar year catastrophes for the three months ended June 30, 2014 and 2013.

Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
Event Date	**Event**	**Net Loss**	**Event Date**	**Event**	**Net Loss**
		(U.S. dollars in millions)			
April 2014	Windstorms in the United States	$ 7.3	June 2013	Floods in Canada	$ 11.3
May 2014	Windstorms in the United States	3.8	June 2013	Floods in Europe	23.7
June 2014	Windstorms in the United States	3.5	May 2013	Windstorms in the United States	12.4
June 2014	Windstorm Ela	9.3			
	Other loss events in 2014	2.6			
		$ 26.5			$ 47.4

For the three months ended June 30, 2014, natural catastrophe related losses added 5.8 percentage points to the Company's net loss ratio after adjustment for reinstatement premiums and other loss sensitive accruals compared to 9.3 percentage points in the same period in 2013.

The Company participates in lines of business where claims may not be reported for many years. Accordingly, management does not believe that reported claims are the only valid means for estimating ultimate obligations. Ultimate losses and loss expenses may differ materially from the amounts recorded in the Company's consolidated financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Reserve adjustments, if any, are recorded in earnings in the period in which they are determined. The overall loss reserves were established by the Company's actuaries and reflect management's best estimate of ultimate losses. See "Reserve for Losses and Loss Expenses" below for further discussion.

Acquisition Expenses

The acquisition expense ratio for the three months ended June 30, 2014 was higher than the same period in 2013 primarily due to growth in net earned premiums in the specialty and professional lines of business in the Reinsurance segment, which incur a higher than average net acquisition expense rate, and a decline in earned premiums in the catastrophe line of business in the Reinsurance segment, which incurs a lower than average acquisition expense rate.

General and Administrative Expenses

The Company’s general and administrative expense ratio for the second quarter of 2014 increased by 3.0 percentage points compared to the same period in 2013 due to corporate activities related to the potential acquisition of Aspen Insurance Holdings Limited (“Aspen”) of $12.1 million and an increase in personnel costs related to the addition of new underwriting teams and management personnel over the last year and the resulting payroll and equity compensation related expenses. This increase was partially offset by increased ceding commission reimbursements as a result of additional purchases of reinsurance during the current quarter. At June 30, 2014, the Company had a total of 948 employees compared to 927 employees at June 30, 2013.

Income Tax Expense

The Company recorded tax expense for the quarter ended June 30, 2014 of $0.1 million compared to a tax benefit of $0.9 million for the quarter ended June 30, 2013. The increase in tax expense in 2014 resulted from net income recorded at the Company’s United States taxable jurisdictions, partially offset by net operating loss carryforwards and a reduction in the Company’s deferred tax asset valuation allowance.

Net Income

The Company generated net income of $83.2 million in the three months ended June 30, 2014 compared to net income of $61.0 million in the same period of 2013 primarily due to a reduction in losses incurred during the current quarter, which was offset by reduced premiums earned and higher acquisition and general and administrative expenses.

Table of Contents

Consolidated Results of Operations – For the Six Months Ended June 30, 2014 and 2013

Results of operations for the six months ended June 30, 2014 and 2013 were as follows:

	Six Months Ended June 30, 2014	2013	Change[(1)]
	(U.S. dollars in thousands, except for ratios)		
Revenues			
Gross premiums written	$1,846,940	$1,750,072	5.5%
Ceded premiums written	(536,808)	(376,536)	42.6%
Net premiums written	1,310,132	1,373,536	(4.6)%
Net premiums earned	877,804	963,452	(8.9)%
Net investment income	80,292	81,773	(1.8)%
Net realized and unrealized investment gains	8,283	16,607	(50.1)%
Net impairment losses recognized in earnings	(309)	(1,385)	(77.7)%
Other underwriting (loss) income	(6,062)	1,637	NM[(2)]
Total revenues	960,008	1,062,084	(9.6)%
Expenses			
Losses and loss expenses	436,092	578,028	(24.6)%
Acquisition expenses	150,758	143,504	5.1%
General and administrative expenses	159,661	147,837	8.0%
Amortization of intangibles	3,240	3,726	(13.0)%
Net foreign exchange losses	3,283	6,295	(47.8)%
Interest expense	18,783	18,090	3.8%
Income tax expense	548	3,286	(83.3)%
Net income	$ 187,643	$ 161,318	16.3%
Net loss ratio	49.6%	60.0%	(10.4)
Acquisition expense ratio	17.2%	14.9%	2.3
General and administrative expense ratio	18.2%	15.3%	2.9
Combined ratio	85.0%	90.2%	(5.2)

(1) With respect to ratios, changes show increase or decrease in percentage points.
(2) Not meaningful.

Premiums

Gross premiums written in the six months ended June 30, 2014 were $1,846.9 million, an increase of $96.9 million, or 5.5%, compared to the same period in 2013. Net premiums written in the six months ended June 30, 2014 were $1,310.1 million, a decrease of $63.4 million, or 4.6%, compared to the same period in 2013. The increase in gross premiums written and the decrease in net premiums written was driven by the following factors:

- An increase in gross and net premiums written in the professional line of business in the Reinsurance segment, due primarily to new business generated by new underwriting teams that joined the Company in late 2013 and an extension of a significant contract, partially offset by non-renewal of contracts that no longer met profitability targets;
- An increase in gross and net premiums written in the casualty and other specialty and professional lines business in the Insurance segment, including marine and energy, excess casualty and various professional liability coverages, as a result of substantial investments to expand the Company's Insurance underwriting leadership and personnel over the last twelve months, partially offset by reductions in casualty business due to non-renewal of policies that no longer met profitability targets;

- An increase in gross and net premiums written in the specialty line of business in the Reinsurance segment as a result of new trade credit, surety and international agriculture business, partially offset by non-renewal of business that no longer met profitability targets and increased ceding company retentions in the aviation and space business;
- An increase in gross and net premiums written in the property line of business in the Reinsurance segment, due primarily to new business generated by the Company's U.S. subsidiaries and Zurich branch and from a number of positive premium adjustments, partially offset by non-renewal of business that no longer met profitability targets and increased ceding company retentions;
- A decline in gross and net premiums written in the agriculture line of business in the Insurance segment due to declines in commodity prices on spring crops, partially offset by growth in policy counts;
- A decline in gross and net premiums written in the casualty line of business in the Reinsurance segment due to non-renewal of business that no longer met profitability targets and reduced participation on certain contracts where pricing was inadequate, partially offset by new business;
- A decline in gross and net premiums written in the catastrophe line of business in the Reinsurance segment due to decreased participation on certain contracts, downward pressure on renewal rates, and non-renewal of a number of contracts; and
- An increase in ceded premiums written by the Company in the first half of the year as compared to the same period in 2013 across both the Insurance and Reinsurance segments. Ceded premiums written increased across all lines of business in the Insurance segment due to an increase in quota share reinsurance purchases, including a new whole account quota share treaty covering the entire Insurance segment's book of business for 2014. In addition, the Company purchased an excess of loss treaty covering the Insurance segment's agriculture line of business at a lower attachment point compared to 2013, resulting in increased ceded premiums written. In the Reinsurance segment, ceded premium written increased as the Company purchased increased levels of protection within the catastrophe line of business, including an aggregate all perils excess of loss treaty and additional proportional retrocession.

Net premiums earned for the six months ended June 30, 2014 were $877.8 million, a decrease of $85.6 million, or 8.9%, from the six months ended June 30, 2013 principally due to the increase in ceded premiums written.

Net Investment Income

The Company's net investment income of $80.3 million decreased by 1.8%, or $1.5 million, for the six months ended June 30, 2014 as compared to the same period in 2013. Net investment income during the first six months of 2014 included net mark to market gains of $24.3 million on other investments, comprised of alternative funds and specialty funds, as compared to mark to market gains of $29.8 million in the first six months of 2013. Investment income generated from the Company's available for sale investments, which consist of fixed maturity investments, short-term investments and equity securities, increased by $3.8 million for the six months ended June 30, 2014 compared to the same period in 2013. Investment expenses, including investment management fees, for the six months ended June 30, 2014 were $7.3 million compared to $7.5 million for the same period in 2013.

Table of Contents

The annualized net earned yield and total return on the investment portfolio for the six months ended June 30, 2014 and 2013 and the market yield and portfolio duration as of June 30, 2014 and 2013 were as follows:

	Six Months Ended June 30,	
	2014	2013
Annualized net earned yield(1)	2.52%	2.56%
Total return on investment portfolio(2)	2.78%	(0.62)%
Market yield(3)	1.63%	2.00%
Portfolio duration(4)	2.88 years	3.05 years

(1) The actual net earned income from the investment portfolio after adjusting for expenses and accretion of discount and amortization of premium from the purchase price divided by the average book value of assets.
(2) Net of investment manager fees; includes realized and unrealized gains and losses.
(3) The internal rate of return of the investment portfolio based on the given market price or the single discount rate that equates to a security price (inclusive of accrued interest) for the portfolio with its projected cash flows. Excludes other investments and operating cash.
(4) Includes only cash and cash equivalents and fixed income investments held by the Company’s investment managers.

During the six months ended June 30, 2014, the yield on the benchmark three year U.S. Treasury bond fluctuated within a 37 basis point range, with a high of 0.99% and a low of 0.62%. Trading activity in the Company’s portfolio for the six months ended June 30, 2014 included reductions in U.S. government and government agencies securities and short-term investments, and increased allocations to corporate securities, foreign government bonds, collateralized obligations, equity securities, other investments, residential mortgage-backed securities, asset-backed securities, government and agency guaranteed corporate securities, commercial mortgage-backed securities, and municipal securities. The duration of the fixed income investments decreased to 2.88 years at June 30, 2014 from 3.11 years at December 31, 2013, primarily due to a decrease in interest rates which increased the estimated rate of prepayments underlying the Company’s mortgage-backed securities portfolio, causing a reduction of the average maturity of these securities.

Net Realized and Unrealized Investment Gains

The Company’s investment portfolio is actively managed on a fair value basis to generate attractive economic returns and income. Movements in financial markets and interest rates influence the timing and recognition of net realized investment gains and losses as the portfolio is adjusted and rebalanced. Proceeds from sales of investments classified as available for sale during the six months ended June 30, 2014 were $2,060.7 million compared to $1,395.5 million during the same period a year ago. Net realized investment gains decreased during the six months ended June 30, 2014 compared to the same period in 2013.

Realized investment gains and losses and the change in the fair value of derivative financial instruments for the six months ended June 30, 2014 and 2013 were as follows:

	Six Months Ended June 30,	
	2014	2013
	(U.S. dollars in thousands)	
Gross realized gains on investment sales	$ 17,634	$ 24,011
Gross realized losses on investment sales	(11,303)	(6,746)
Change in fair value of derivative financial instruments	1,952	(658)
Net realized and unrealized investment gains	$ 8,283	$ 16,607

Net impairment losses recognized in earnings for the six months ended June 30, 2014 and 2013 were $0.3 million and $1.4 million, respectively.

Net Foreign Exchange Gains

For the six months ended June 30, 2014, the Company remeasured its monetary assets and liabilities denominated in foreign currencies, which resulted in a net foreign exchange loss of $3.3 million compared to a net foreign exchange loss of $6.3 million for the same period in 2013. The current period net foreign exchange loss was primarily incurred in the first quarter and resulted from offsetting exposures across the Company as the U.S. dollar weakened against the Japanese Yen and Australian dollar, revaluing net liability balances in those currencies higher. In the prior year, the loss resulted from the U.S. dollar strengthening against the Japanese Yen, Australian dollar and New Zealand dollar and the downward revaluation of net asset balances in those currencies.

Net Losses and Loss Expenses

The Company's net loss ratio for the six months ended June 30, 2014 decreased compared to the same period in 2013, principally as a result of lower incurred losses in the agriculture, casualty and other specialty and professional lines of business in the Insurance segment and the catastrophe, property and casualty lines of business in the Reinsurance segment. Improvement in the net loss ratio was due to a decrease in catastrophe losses compared to the prior year, and the strategic re-underwriting and re-balancing of the Company's underwriting portfolios, driven in part by the impact of underwriting teams added during the past year. This improvement was partially offset by decreased favorable prior year loss reserve development compared to the same period in the prior year.

Favorable prior year loss reserve development was $104.5 million for the six months ended June 30, 2014 as compared to $113.5 million for the same period in 2013. In the six months ended June 30, 2014 and 2013, prior year loss reserves emerged favorably across all lines of the Insurance and Reinsurance segments. Favorable reserve development in the six months ended June 30, 2014 was higher than the six months ended June 30, 2013 in the Insurance segment due primarily to lower than expected reported losses in the casualty and other specialty line of business. Favorable reserve development in the six months ended June 30, 2014 was lower than the six months ended June 30, 2013 in the Reinsurance segment in the catastrophe line of business as the six months ended June 30, 2013 included significant reductions in reserve estimates related to the Thailand flood losses of 2011 and Superstorm Sandy losses in 2012.

The following table shows the net losses after adjustment for reinstatement premiums and other loss sensitive accruals recorded by the Company in connection with current calendar year catastrophes for the six months ended June 30, 2014 and 2013.

Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
Event Date	**Event**	**Net Loss**	**Event Date**	**Event**	**Net Loss**
		(U.S. dollars in millions)			
February 2014	Windstorm in Japan	$ 4.7	June 2013	Floods in Canada	$ 11.3
April 2014	Windstorms in the United States	7.3	June 2013	Floods in Europe	23.7
May 2014	Windstorms in the United States	3.8	May 2013	Windstorms in the United States	12.4
June 2014	Windstorms in the United States	3.5			
June 2014	Windstorm Ela	9.3			
		$ 28.6			$ 47.4

For the six months ended June 30, 2014, catastrophe related losses added 3.4 percentage points to the Company's net loss ratio after adjustment for reinstatement premiums and other loss sensitive accruals compared to 5.2 percentage points in the same period in 2013.

The Company participates in lines of business in which claims may not be reported for many years. Accordingly, management does not believe that reported claims are the only valid means for estimating ultimate obligations. Ultimate losses and loss expenses may differ materially from the amounts recorded in the Company's consolidated financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Reserve adjustments, if any, are recorded in earnings in the period in which they are determined. The overall loss reserves were established by the Company's actuaries and reflect management's best estimate of ultimate losses. See "Reserve for Losses and Loss Expenses" below for further discussion.

Acquisition Expenses

The acquisition expense ratio for the six months ended June 30, 2014 was higher than the same period in 2013 primarily due to growth in net premiums earned in the specialty and professional lines of business in the Reinsurance segment, which incur a higher than average net acquisition expense rate, and a decline in net premiums earned in the catastrophe line of business in the Reinsurance segment, which incurs a lower than average acquisition expense rate.

General and Administrative Expenses

The Company's general and administrative expense ratio for the six months ended June 30, 2014 increased by 2.9 percentage points compared to the same period in 2013 due to corporate activities related to the potential acquisition of Aspen of $13.0 million and an increase in personnel costs related to the addition of new underwriting teams and management personnel over the last year and the resulting payroll and equity compensation related expenses. This increase was partially offset by increased ceding commission reimbursements as a result of additional purchases of reinsurance during the current year. At June 30, 2014, the Company had a total of 948 employees compared to 927 employees at June 30, 2013.

Income Tax Expense

The Company recorded a tax expense for the six months ended June 30, 2014 of $0.5 million compared to a tax expense of $3.3 million for the same period in 2013. The reduction in tax expense in 2014 resulted from net income recorded at the Company's United States taxable jurisdictions, partially offset by net operating loss carryforwards and adjustments to the Company's deferred tax asset valuation allowances.

Net Income

The Company generated net income of $187.6 million for the six months ended June 30, 2014 compared to net income of $161.3 million in the same period of 2013 primarily due to a reduction in losses incurred which was partially offset by reduced net premiums earned and reduced net realized and unrealized investment gains, and higher acquisition and general and administrative expenses.

Reserve for Losses and Loss Expenses

As of June 30, 2014, the Company had accrued losses and loss expense reserves of $4.0 billion (December 31, 2013 - $4.0 billion). This amount represents management's best estimate of the ultimate liability for payment of losses and loss expenses related to loss events. During the six months ended June 30, 2014 and 2013, the Company's net paid losses and loss expenses were $497.2 million and $549.3 million, respectively.

As more fully described under "Reserving Process" in the Company's Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2013 Form 10-K, the Company incorporates a variety of actuarial methods and judgments in its reserving process. Two key inputs in the various actuarial methods employed by the Company are initial expected loss ratios and expected loss reporting patterns. These key inputs impact the potential variability in the estimate of the reserve for losses and loss expenses and are applicable to each of the Company's business segments. The Company's loss and loss expense reserves consider and reflect, in part, deviations resulting from differences between expected loss and actual loss reporting as well as judgments relating to the weights applied to the reserve levels indicated by the actuarial methods. Expected loss reporting patterns are based upon internal and external historical data and assumptions regarding claims reporting trends over a period of time that extends beyond the Company's own operating history.

Differences between actual reported losses and expected losses are anticipated to occur in any individual period and such deviations may influence future initial expected loss ratios and/or expected loss reporting patterns as the recent actual experience becomes part of the historical data utilized as part of the ongoing reserve estimation process. The

Company has demonstrated the impact of changes in the speed of the loss reporting patterns, as well as changes in the expected loss ratios, within the table under the heading "Potential Variability in Reserves for Losses and Loss Expenses" in the Company's Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2013 Form 10-K.

Losses and loss expenses for the three and six months ended June 30, 2014 are summarized as follows:

Three Months Ended June 30, 2014	Incurred related to: Current year	Prior years	Total incurred losses
	(U.S. dollars in thousands)		
Insurance:			
Agriculture	$ 113,873	$ (2,188)	$ 111,685
Casualty and other specialty	37,809	(11,350)	26,459
Professional lines	16,504	(3,991)	12,513
Property	3,429	(4,519)	(1,090)
Total Insurance	171,615	(22,048)	149,567
Reinsurance:			
Catastrophe	23,620	(7,713)	15,907
Property	43,629	(9,502)	34,127
Casualty	1,723	(2,821)	(1,098)
Professional lines	20,965	(2,551)	18,414
Specialty	51,845	(9,566)	42,279
Total Reinsurance	141,782	(32,153)	109,629
Totals	$ 313,397	$ (54,201)	$ 259,196

Six Months Ended June 30, 2014	Incurred related to: Current year	Prior years	Total incurred losses
	(U.S. dollars in thousands)		
Insurance:			
Agriculture	$ 164,229	$ (4,328)	$ 159,901
Casualty and other specialty	63,752	(18,066)	45,686
Professional lines	34,544	(5,119)	29,425
Property	9,271	(6,183)	3,088
Total Insurance	271,796	(33,696)	238,100
Reinsurance:			
Catastrophe	39,428	(15,474)	23,954
Property	88,200	(24,259)	63,941
Casualty	30,390	(5,572)	24,818
Professional lines	40,930	(4,580)	36,350
Specialty	69,861	(20,932)	48,929
Total Reinsurance	268,809	(70,817)	197,992
Totals	$ 540,605	$(104,513)	$ 436,092

Losses and loss expenses for the three and six months ended June 30, 2014 included $54.2 million and $104.5 million in favorable development of reserves relating to prior accident years, respectively. The favorable loss reserve development experienced during the three and six months ended June 30, 2014 benefited the Company's reported net loss ratios by approximately 11.3 and 11.9 percentage points, respectively. This net reduction in estimated losses for prior accident years reflects lower than expected claims emergence for the six months ended June 30, 2014 in all lines of business within the Insurance and Reinsurance segments.

For the three and six months ended June 30, 2014, the Company did not materially alter key inputs utilized to establish reserve for losses and loss expenses (initial expected loss ratios and loss reporting patterns) related to prior years for the insurance and reinsurance segments as the variances in reported losses for those segments were within the range of possible results anticipated by the Company.

Losses and loss expenses for the three and six months ended June 30, 2013 are summarized as follows:

Three Months Ended June 30, 2013	Incurred related to: Current year	Prior years	Total incurred losses
	(U.S. dollars in thousands)		
Insurance:			
Agriculture	$ 158,341	$ (233)	$ 158,108
Casualty and other specialty	42,393	(4,976)	37,417
Professional lines	17,608	1,672	19,280
Property	3,127	(2,088)	1,039
Total Insurance	221,469	(5,625)	215,844
Reinsurance:			
Catastrophe	67,780	(26,439)	41,341
Property	59,716	(23,444)	36,272
Casualty	42,676	(900)	41,776
Professional lines	9,020	(996)	8,024
Specialty	21,202	(5,401)	15,801
Total Reinsurance	200,394	(57,180)	143,214
Totals	$ 421,863	$ (62,805)	$ 359,058

Six Months Ended June 30, 2013	Incurred related to: Current year	Prior years	Total incurred losses
	(U.S. dollars in thousands)		
Insurance:			
Agriculture	$ 209,033	$ (4,966)	$ 204,067
Casualty and other specialty	80,702	(9,918)	70,784
Professional lines	41,432	2,339	43,771
Property	7,061	(10,375)	(3,314)
Total Insurance	338,228	(22,920)	315,308
Reinsurance:			
Catastrophe	96,223	(38,350)	57,873
Property	112,651	(25,070)	87,581
Casualty	84,415	(9,140)	75,275
Professional lines	18,866	(6,654)	12,212
Specialty	41,118	(11,339)	29,779
Total Reinsurance	353,273	(90,553)	262,720
Totals	$ 691,501	$(113,473)	$ 578,028

Losses and loss expenses for the three and six months ended June 30, 2013 included $62.8 million and $113.5 million in favorable development of reserves relating to prior accident years, respectively. The favorable loss reserve development experienced during the three and six months ended June 30, 2013 benefited the Company's reported net loss ratio by approximately 11.6 and 11.8 percentage points, respectively. This net reduction in estimated losses for prior accident years reflects lower than expected claims emergence for the six months ended June 30, 2013 in the agriculture, casualty and other specialty and property lines of business in the Insurance segment, and in all lines of business within the Reinsurance segment.

For the three and six months ended June 30, 2013, the Company did not materially alter the two key inputs utilized to establish its reserve for losses and loss expenses (initial expected loss ratios and loss reporting patterns) for business related to prior years for the insurance and reinsurance segments as the variances in reported losses for those segments were within the range of possible results anticipated by the Company.

Insurance

Agriculture. For the three and six months ended June 30, 2014 and 2013, the Company recorded favorable loss emergence due to lower than anticipated agriculture claims settlements for the 2013 and 2012 crop years.

Casualty and other specialty. For the three and six months ended June 30, 2014, the Company recorded favorable loss emergence within this line of business primarily due to lower than expected claims activity within the Bermuda and U.S. based excess casualty businesses. This favorable loss emergence was partially offset by adverse development within the healthcare liability business due to two large malpractice claims. For the three and six months ended June 30, 2013, the Company recorded favorable loss emergence within this line of business primarily due to lower than expected claims activity within the healthcare liability and the Bermuda based excess casualty businesses. This favorable loss emergence was partially offset by adverse development within the U.S. based casualty business.

Professional lines. For the three and six months ended June 30, 2014, the Company recorded favorable loss emergence within this line of business, primarily due to slightly lower than expected reported claims activity. For the three and six months ended June 30, 2013, the Company recorded favorable loss emergence within this line of business primarily due to lower than expected reported claims activity in the Bermuda based professional liability and U.S. based director and officers' liability businesses.

Property. For the three and six months ended June 30, 2014 and 2013, the favorable loss emergence within the property line of business was primarily due to lower than expected reported claims emergence.

Reinsurance

Catastrophe. For the six months ended June 30, 2014, the Company recorded significant favorable loss emergence within this line of business primarily due to lower than expected claims activity. For the six months ended June 30, 2013, the Company recorded significant favorable loss emergence within this line of business primarily due to lower than expected claims activity, primarily related to the Thailand floods of 2011 and Superstorm Sandy in 2012.

Property. For the three and six months ended June 30, 2014, the Company recorded favorable loss emergence in the property line of business primarily due to lower than expected claims activity within the U.S. based business. For the three and six months ended June 30, 2013, the Company recorded favorable loss emergence in the property line of business due to lower than expected claims activity, primarily related to the Thailand floods of 2011 and Superstorm Sandy in 2012.

Casualty. For the three and six months ended June 30, 2014 and 2013, the Company recorded favorable loss emergence within this line of business primarily due to lower than expected claims emergence.

Professional lines. For the three and six months ended June 30, 2014 and 2013, the Company recorded favorable loss emergence within this line of business primarily due to lower than expected claims emergence.

Specialty. For the three and six months ended June 30, 2014 and 2013, the Company recorded favorable loss emergence within this line of business primarily due to lower than expected claims emergence.

The total reserves for losses and loss expenses recorded on the Company's balance sheet were comprised of the following at June 30, 2014:

	Case Reserves	IBNR Reserves	Reserve for losses and loss expenses
		(U.S. dollars in thousands)	
Insurance:			
Agriculture	$ 213,720	$ 121,452	$ 335,172
Casualty and other specialty	349,230	945,689	1,294,919
Professional lines	96,271	385,270	481,541
Property	18,138	14,151	32,289
Total Insurance	677,359	1,466,562	2,143,921
Reinsurance:			
Catastrophe	151,530	95,279	246,809
Property	183,619	115,282	298,901
Casualty	249,954	525,932	775,886
Professional lines	62,612	174,159	236,771
Specialty	91,556	169,549	261,105
Total Reinsurance	739,271	1,080,201	1,819,472
Totals	$ 1,416,630	$ 2,546,763	$ 3,963,393

The total reserves for losses and loss expenses recorded on the Company's balance sheet were comprised of the following at December 31, 2013:

	Case Reserves	IBNR Reserves	Reserve for losses and loss expenses
		(U.S. dollars in thousands)	
Insurance:			
Agriculture	$ 257,939	$ 84,429	$ 342,368
Casualty and other specialty	316,170	960,130	1,276,300
Professional lines	110,880	390,875	501,755
Property	23,410	15,057	38,467
Total Insurance	708,399	1,450,491	2,158,890
Reinsurance:			
Catastrophe	167,152	98,474	265,626
Property	196,715	127,083	323,798
Casualty	244,300	554,289	798,589
Professional lines	65,353	149,882	215,235
Specialty	96,801	143,320	240,121
Total Reinsurance	770,321	1,073,048	1,843,369
Totals	$ 1,478,720	$ 2,523,539	$ 4,002,259

Underwriting Results by Business Segments

The determination of the Company's business segments is based on the manner in which management monitors the performance of the Company's underwriting operations. As a result, we report two business segments – Insurance and Reinsurance.

Management measures the Company's results on the basis of the combined ratio, which is obtained by dividing the sum of the losses and loss expenses, acquisition expenses and general and administrative expenses by net premiums earned. The Company's historic combined ratios may not be indicative of future underwriting performance. When purchased within a single line of business, ceded reinsurance and recoveries are accounted for within that line of business. When purchased across multiple lines of business, ceded reinsurance and recoveries are allocated to the lines of business in proportion to the related risks assumed. The Company does not manage its assets by business segment; accordingly, investment income and total assets are not allocated to the individual business segments. General and administrative expenses incurred by the business segments are allocated directly. Remaining general and administrative expenses not directly incurred by the business segments are allocated primarily based on estimated consumption, headcount and other variables deemed relevant to the allocation of such expenses. Ceded reinsurance and recoveries are recorded within the business segment to which they apply.

Insurance

The following table summarizes the underwriting results and associated ratios for the Company's Insurance segment for the three and six months ended June 30, 2014 and 2013.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(U.S. dollars in thousands, except for ratios)			
Revenues				
Gross premiums written	$ 321,526	$ 276,941	$ 973,802	$ 929,884
Ceded premiums written	(142,488)	(85,439)	(451,737)	(333,688)
Net premiums written	179,038	191,502	522,065	596,196
Net premiums earned	218,563	267,878	362,584	419,030
Other underwriting income	—	—	—	—
	218,563	267,878	362,584	419,030
Expenses				
Losses and loss expenses	149,567	215,844	238,100	315,308
Acquisition expenses	15,128	14,968	27,389	29,584
General and administrative expenses	47,237	43,524	88,973	79,151
	211,932	274,336	354,462	424,043
Underwriting income (loss)	$ 6,631	$ (6,458)	$ 8,122	$ (5,013)
Net loss ratio	68.5 %	80.6 %	65.7 %	75.2 %
Acquisition expense ratio	6.9 %	5.6 %	7.6 %	7.1 %
General and administrative expense ratio	21.6 %	16.2 %	24.5 %	18.9 %
Combined ratio	97.0 %	102.4 %	97.8 %	101.2 %

Table of Contents

Premiums. Gross premiums written for the three months ended June 30, 2014 in the Insurance segment increased by 16.1% over the same period in 2013. Gross premiums written for the six months ended June 30, 2014 in the Insurance segment increased by 4.7% over the same period in 2013. Gross and net premiums written for each line of business in the Insurance segment were as follows:

	Three Months Ended June 30,			
	2014		2013	
	Gross Premiums Written	Net Premiums Written	Gross Premiums Written	Net Premiums Written
	(U.S. dollars in thousands)			
Agriculture	$ 80,540	$ 45,826	$131,633	$ 84,537
Casualty and other specialty	146,728	89,765	87,614	63,373
Professional lines	74,650	29,846	38,296	27,788
Property	19,608	13,601	19,398	15,804
Total	$321,526	$ 179,038	$276,941	$ 191,502

	Six Months Ended June 30,			
	2014		2013	
	Gross Premiums Written	Net Premiums Written	Gross Premiums Written	Net Premiums Written
	(U.S. dollars in thousands)			
Agriculture	$608,434	$327,471	$696,107	$425,667
Casualty and other specialty	221,623	131,486	144,081	106,634
Professional lines	113,430	44,416	59,260	41,991
Property	30,315	18,692	30,436	21,904
Total	$973,802	$522,065	$929,884	$596,196

The Insurance segment's gross premiums written increased while the net premiums written declined for the three and six months ended June 30, 2014 compared to the same periods in 2013 due to the following factors:

- An increase in gross premiums written in the casualty and other specialty and professional lines of business, including marine and energy, excess casualty and various professional liability coverages, as a result of substantial investments to expand the Company's Insurance underwriting leadership and personnel over the last twelve months, partially offset by reductions in casualty business due to non-renewal of policies that no longer met profitability targets;
- A decline in gross premiums written in the agriculture line of business due to declines in commodity prices on spring crops, partially offset by growth in policy counts; and
- An increase in ceded premiums written by the Company in the first half of the year as compared to the same period in 2013. Ceded premiums written increased across all lines of business due to an increase in quota share reinsurance purchases, including a new whole account quota share treaty covering the entire Insurance segment's book of business for 2014. In addition, the Company purchased an excess of loss treaty covering the Insurance segment's agriculture line of business at a lower attachment point compared to 2013, resulting in increased ceded premiums written.

Net premiums earned by the Company in the Insurance segment decreased in the three and six months ended June 30, 2014 compared to the same periods in 2013 primarily due to the increase in ceded premiums written.

Losses and Loss Expenses. The net loss ratio in the Company's Insurance segment decreased by 12.1 percentage points for the three month period ended June 30, 2014 compared to the same period in 2013 and decreased by 9.5 percentage points for the six months ended June 30, 2014 and 2013. The current accident quarter loss ratio decreased by 4.1 and 5.7 percentage points for the three and six months ended June 30, 2014, respectively, compared to the same periods in 2013 due primarily to lower losses incurred in the casualty and other specialty line of business driven by the strategic re-underwriting and re-balancing of the portfolio.

During the three and six months ended June 30, 2014, the Company's previously estimated loss and loss expense reserve for the Insurance segment for prior accident years was reduced by $22.0 million and $33.7 million, respectively, which decreased the net loss ratio by 10.1 and 9.3 percentage points, respectively, as compared to reductions of $5.6 million and $22.9 million, which decreased the net loss ratio by 2.1 and 5.5 percentage points for the three and six months ended June 30, 2013, respectively. Higher levels of favorable loss development in the second quarter and first six months of 2014 compared to 2013 was experienced primarily in the casualty and other specialty and professional lines of business following lower than expected claims activity than 2013.

Acquisition Expenses. The acquisition expense ratios in the Insurance segment in the second quarter and six months ended June 30, 2014 increased compared to the same periods in 2013 due to the increase in net earned premiums in the casualty and other specialty line of business, which incurs a higher than average net acquisition expense rate, and the decrease of net earned premiums in the agriculture line of business, which incurs a lower than average net acquisition expense rate.

General and Administrative Expenses. The increase in general and administrative expense ratios in the Insurance segment in the second quarter and six months ended June 30, 2014 compared to the same periods in 2013 was due to corporate activities related to the potential acquisition of Aspen and an increase in personnel costs related to the addition of new underwriting teams and management personnel over the last year and the resulting payroll and equity compensation related expenses. This increase was partially offset by increased ceding commission reimbursements as a result of additional purchases of reinsurance during the current quarter and year to date.

Table of Contents

Reinsurance

The following table summarizes the underwriting results and associated ratios for the Company's Reinsurance business segment for the three and six months ended June 30, 2014 and 2013.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(U.S. dollars in thousands, except for ratios)			
Revenues				
Gross premiums written	$ 367,899	$ 295,769	$ 873,138	$ 820,188
Ceded premiums written	(35,510)	(22,650)	(85,071)	(42,848)
Net premiums written	332,389	273,119	788,067	777,340
Net premiums earned	262,975	275,457	515,220	544,422
Other underwriting (loss) income	(4,824)	888	(6,062)	1,637
	258,151	276,345	509,158	546,059
Expenses				
Losses and loss expenses	109,629	143,214	197,992	262,720
Acquisition expenses	63,473	56,900	123,369	113,920
General and administrative expenses	39,218	37,835	70,688	68,686
	212,320	237,949	392,049	445,326
Underwriting income	$ 45,831	$ 38,396	$ 117,109	$ 100,733
Net loss ratio	41.7%	52.0%	38.5%	48.3%
Acquisition expense ratio	24.1%	20.7%	23.9%	20.9%
General and administrative expense ratio	14.9%	13.7%	13.7%	12.6%
Combined ratio	80.7%	86.4%	76.1%	81.8%

Premiums. In the second quarter of 2014, net premiums written in the Reinsurance segment increased by 21.7% over the same period of 2013. In the six months ended June 30, 2014, net premiums written in the Reinsurance segment increased by 1.4% over the same period in 2013. Gross and net premiums written for each line of business in the Reinsurance segment for the three and six months ended June 30, 2014 and 2013 were as follows:

	Three Months Ended June 30,			
	2014		2013	
	Gross Premiums Written	Net Premiums Written	Gross Premiums Written	Net Premiums Written
	(U.S. dollars in thousands)			
Catastrophe	$158,372	$123,411	$155,431	$138,041
Property	42,887	42,886	48,384	44,516
Casualty	30,875	30,868	54,417	54,419
Professional lines	84,117	84,117	12,528	12,528
Specialty	51,648	51,107	25,009	23,615
Total	$367,899	$332,389	$295,769	$273,119

	Six Months Ended June 30,			
	2014		2013	
	Gross Premiums Written	Net Premiums Written	Gross Premiums Written	Net Premiums Written
	(U.S. dollars in thousands)			
Catastrophe	$285,020	$202,374	$303,297	$269,439
Property	209,300	209,208	196,795	192,927
Casualty	115,857	114,260	183,809	182,382
Professional lines	109,736	109,736	24,835	24,835
Specialty	153,225	152,489	111,452	107,757
Total	$873,138	$788,067	$820,188	$777,340

The movements in gross and ceded premiums written in the Reinsurance segment for the second quarter and six months ended June 30, 2014 compared to the same periods in 2013 were primarily due to the following factors:

- An increase in gross premiums written in the professional line of business, due primarily to new business generated by new underwriting teams that joined the Company in late 2013 and an extension of a significant contract, partially offset by non-renewal of contracts that no longer met profitability targets;
- An increase in gross premiums written in the specialty line of business as a result of new trade credit, surety and international agriculture business, partially offset by non-renewal of business that no longer met profitability targets and increased ceding company retentions in the aviation and space business;
- An increase in gross premiums written in the property line of business in the six month period, due primarily to new business generated by the Company’s U.S. subsidiaries and Zurich branch and from a number of positive premium adjustments, partially offset by non-renewal of business that no longer met profitability targets and increased ceding company retentions;
- A decline in gross premiums written in the casualty line of business due to non-renewal of business that no longer met profitability targets and reduced participation on certain contracts where pricing declined, partially offset by new business;

- Over the six month period, a decline in gross premiums written in the catastrophe line of business due to decreased participation on certain contracts, downward pressure on renewal rates and non-renewal of a number of contracts; and
- An increase in ceded premiums written by the Company in the first half of the year as compared to the same period in 2013. Ceded premium written increased as the Company purchased increased levels of protection within the catastrophe line of business, including an aggregate all perils excess of loss treaty and additional proportional retrocession.

Net premiums earned by the Company in the Reinsurance segment for the three and six months ended June 30, 2014 decreased compared to the same period in 2013 due to the increase in ceded premiums written.

Losses and Loss Expenses. The net loss ratios in the Company's Reinsurance segment for the three and six months ended June 30, 2014 decreased compared to the same periods in 2013 principally as a result of lower incurred losses in 2014 compared to 2013. Improvement in the net loss ratios was due to a decrease in catastrophe losses compared to the same periods in the prior year, and the strategic re-underwriting and re-balancing of the Company's underwriting portfolios, driven in part by the impact of underwriting teams added during the past year. This improvement was partially offset by decreased favorable prior year loss reserve development for the three and six months ended June 30, 2014 compared to the same periods in 2013.

The Company recorded $32.2 million and $70.8 million of favorable prior year loss reserve development in the three and six months ended June 30, 2014 compared to $57.2 million and $90.6 million in the three and six months ended June 30, 2013. During the three and six months ended June 30, 2014, the majority of the favorable loss reserve development emanated from the property, specialty and catastrophe lines of business. The same periods in 2013 experienced favorable loss reserve development emanating from the property and catastrophe lines of business, driven by reductions in the Thailand flood losses of 2011 and Superstorm Sandy losses in 2012, and from lower than expected attritional losses.

Partially offsetting the decreased levels of favorable prior year loss reserve development in the current periods, the Company recorded catastrophe losses, net of reinstatement premiums and other loss sensitive accruals, of $26.5 million and $28.6 million in the quarter and six months ended June 30, 2014. The net losses from catastrophes added 10.9 and 6.0 percentage points to the Reinsurance segment's net loss ratios for the second quarter and six months ended June 30, 2014, respectively. During the second quarter and six months ended June 30, 2013, the Company incurred catastrophe losses of $47.4 million and $47.4 million. The net losses from catastrophes added 18.8 and 9.5 percentage points to the Reinsurance segment's net loss ratios for the second quarter and six months ended June 30, 2013, respectively.

The following table shows the net losses after adjustment for reinstatement premiums and other loss sensitive accruals recorded by the Company in the Reinsurance segment in connection with current calendar year catastrophes for the three and six months ended June 30, 2014 and 2013.

Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
Event Date	**Event**	**Net Loss**	**Event Date**	**Event**	**Net Loss**
		(U.S. dollars in millions)			
April 2014	Windstorms in the United States	$ 7.3	June 2013	Floods in Canada	$ 11.3
May 2014	Windstorms in the United States	3.8	May 2013	Floods in Europe	23.7
June 2014	Windstorms in the United States	3.5		Windstorms in the United States	12.4
June 2014	Windstorm Ela	9.3			
	Other loss events in 2014	2.6			
		$ 26.5			$ 47.4

Table of Contents

Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
Event Date	Event	Net Loss	Event Date	Event	Net Loss
		(U.S. dollars in millions)			
February 2014	Windstorm in Japan	$ 4.7	June 2013	Floods in Canada	$ 11.3
April 2014	Windstorms in the United States	7.3	June 2013	Floods in Europe	23.7
May 2014	Windstorms in the United States	3.8	May 2013	Windstorms in the United States	12.4
June 2014	Windstorms in the United States	3.5			
June 2014	Windstorm Ela	9.3			
		$ 28.6			$ 47.4

Acquisition Expenses. The Company's acquisition expense ratios in the Reinsurance segment for the three and six months ended June 30, 2014 were higher than in the same periods in 2013 primarily due to growth in net premiums earned in the specialty and professional lines of business, which incur a higher than average net acquisition expense rate, and a decline in net premiums earned in the catastrophe line of business, which incurs a lower than average net acquisition expense rate.

General and Administrative Expenses. The general and administrative expense ratios in the Reinsurance segment for the three and six months ended June 30, 2014 increased compared to those in the same periods in 2013 due to corporate activities related to the potential acquisition of Aspen and an increase in personnel costs related to the acquisition of new underwriting teams and management personnel over the last year and the resulting payroll and equity compensation related expenses.

Liquidity and Capital Resources

Endurance Holdings is a holding company that does not have any significant operations or assets other than its ownership of the shares of its direct and indirect subsidiaries. Endurance Holdings relies primarily on dividends and other permitted distributions from its subsidiaries to pay its operating expenses, interest on debt and dividends, if any, on its ordinary shares, its 7.75% Non-Cumulative Preferred Shares, Series A ("Series A Preferred Shares") and its 7.5% Non-Cumulative Preferred Shares, Series B ("Series B Preferred Shares"). There are restrictions on the payment of dividends by the Company's operating subsidiaries to Endurance Holdings, which are described in more detail below.

Ability of Subsidiaries to Pay Dividends. The ability of Endurance Bermuda to pay dividends is dependent on its ability to meet the requirements of applicable Bermuda law and regulations. Under Bermuda law, Endurance Bermuda may not declare or pay a dividend if there are reasonable grounds for believing that Endurance Bermuda is, or would after the payment be, unable to pay its liabilities as they become due, or the realizable value of Endurance Bermuda's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Further, Endurance Bermuda, as a regulated insurance company in Bermuda, is subject to additional regulatory restrictions on the payment of dividends or distributions. As of June 30, 2014, Endurance Bermuda could pay a dividend or return additional paid-in capital totaling approximately $551.8 million (December 31, 2013 – $654.5 million) without prior regulatory approval based upon the Bermuda insurance and corporate regulations. In 2011, Endurance Holdings loaned Endurance Bermuda $200.0 million, which remains outstanding and is callable on demand.

Endurance U.S. Reinsurance, Endurance American, Endurance American Specialty and Endurance Risk Solutions are subject to regulation by the State of Delaware Department of Insurance and American Agri-Business is subject to regulation by the Texas Department of Insurance. Dividends for each U.S. operating subsidiary are limited to the greater of 10% of policyholders' surplus or statutory net income, excluding realized capital gains. In addition, dividends may only be declared or distributed out of earned surplus. At December 31, 2013, Endurance U.S. Reinsurance, Endurance American, Endurance Risk Solutions and Endurance American Specialty did not have earned surplus; therefore, these companies are precluded from declaring or distributing dividends at June 30, 2014 without the prior approval of the applicable insurance regulator. At June 30, 2014, American Agri-Business could pay dividends of $3.9 million with notice to the Texas Department of Insurance. In addition, any dividends paid by Endurance American, Endurance American Specialty and Endurance Risk Solutions would be subject to the dividend limitation of their respective parent insurance companies.

Under the jurisdiction of the United Kingdom's Prudential Regulation Authority ("PRA"), Endurance U.K. must maintain a margin of solvency at all times, which is determined based on the type and amount of insurance business written. The PRA regulatory requirements impose no explicit restrictions on Endurance U.K.'s ability to pay a dividend, but Endurance U.K. would have to notify the PRA 28 days prior to any proposed dividend payment. Dividends may only be distributed from profits available for distributions. At June 30, 2014, Endurance U.K. did not have profits available for distributions.

Cash and Invested Assets. The Company's aggregate invested assets, including fixed maturity investments, short-term investments, equity securities, other investments, cash and cash equivalents and pending securities transactions, as of June 30, 2014 totaled $6.5 billion, which is consistent with the aggregate invested assets of $6.5 billion as of December 31, 2013.

At June 30, 2014, the Company's available for sale investments had gross unrealized gains of $130.9 million and gross unrealized losses of $11.8 million compared to gross unrealized gains of $95.6 million and gross unrealized losses of $49.6 million at December 31, 2013. The decrease in gross unrealized losses on the Company's fixed income investments at June 30, 2014 compared to December 31, 2013 was primarily due to a decrease in interest rates during the period. The Company did not have the intent to sell any of the remaining fixed income investments in an unrealized loss position and determined that it was unlikely that the Company would be required to sell securities in an unrealized loss position at June 30, 2014. The Company has the ability and intent to hold its equity securities until recovery. Therefore, the Company does not consider its fixed income investments or equity securities to be other-than-temporarily impaired at June 30, 2014.

The Company's aggregate direct exposure to the indebtedness and equity securities of those countries whose currency is the Euro or whose sovereign debt rating is below AAA (except the U.S.) was $614.9 million at June 30, 2014, compared to $463.4 million at December 31, 2013.

Cash Flows

	Six Months Ended June 30,	
	2014	2013
	(U.S. dollars in thousands)	
Net cash provided by operating activities	$ 19,667	$ 42,712
Net cash used in investing activities	(18,886)	(165,604)
Net cash used in financing activities	(54,251)	(30,706)
Effect of exchange rate changes on cash and cash equivalents	8,647	(28,359)
Net decrease in cash and cash equivalents	(44,823)	(181,957)
Cash and cash equivalents, beginning of period	845,851	1,124,019
Cash and cash equivalents, end of period	$ 801,028	$ 942,062

The decrease in cash flows provided by operating activities in the six months ended June 30, 2014 compared to the same period in 2013 was primarily due to higher ceded premium and general expenditure outflows, partially offset by lower gross loss payments.

The decrease in cash used in investing activities reflected the Company's active management of its investment portfolio on a fair value basis to generate attractive economic returns and income. Movements in financial markets and interest rates influence the timing of investment sales and purchases. The decrease in cash flows used in investing activities in 2014 principally reflected increased proceeds from sales and maturities of available for sale investments offset by higher purchases of available for sale investments compared to 2013.

The cash flows used in financing activities in the first quarter of 2014 were higher than in 2013 principally due to a decrease in the number of common shares issued, costs paid for bridge financing related to the proposed acquisition of Aspen and an increase in dividends paid to holders of the Company's common shares. The higher financing outflows were partially offset by common share repurchases in 2013, while there was no repurchase activity in the current period. During the six months ended June 30, 2013, the Company used its capital to repurchase 318,252 ordinary shares in the open market for $14.6 million at an average price per share of $45.83.

The effect of exchange rate changes had a modestly positive impact on the cash balances of the Company in the first half of 2014 as exchange rates did not change to a significant extent in the period. In the first half of 2013 the dollar strengthened significantly against British Sterling and Japanese Yen resulting in a reduction in the reported value of cash balances.

As of June 30, 2014 and December 31, 2013, the Company had pledged cash and cash equivalents and fixed maturity investments of $128.7 million and $146.1 million, respectively, in favor of certain ceding companies to collateralize obligations. As of June 30, 2014 and December 31, 2013, the Company had also pledged $250.2 million and $302.7 million of its cash and fixed maturity investments to meet collateral obligations for $216.8 million and $260.3 million, respectively, in letters of credit outstanding under its Credit Facility (as defined below) and LOC agreement. In addition, at June 30, 2014 and December 31, 2013, cash and fixed maturity investments with fair values of $274.6 million and $273.7 million were on deposit with U.S. state regulators, respectively.

Credit Facility. On April 19, 2012, the Company and certain designated subsidiaries of the Company entered into a $700.0 million four-year revolving credit facility with JPMorgan Chase Bank, N.A. ("JPMorgan") as administrative agent ("Credit Facility"). As of June 30, 2014, there were no borrowings under this facility and letters of credit outstanding under the Credit Facility were $216.8 million (December 31, 2013 – $260.3 million).

On June 25, 2014, the Company entered into the First Amendment (the "Amendment") to the Credit Facility. The Amendment also amends the Security Agreement, dated as of April 19, 2012 (the "Security Agreement"), among the Company and certain designated subsidiaries of the Company, Deutsche Bank Trust Company Americas, as collateral agent, and JPMorgan as the administrative agent. The Amendment contains certain amendments to the Credit Facility and the Security Agreement to facilitate the proposed acquisition of Aspen and to change certain other provisions of the Credit Facility by, among other things, increasing the maximum permitted leverage ratio (calculated as provided in the Credit Facility) from 0.35:1.00 to 0.40:1.00 until the last day of the third full fiscal quarter following the consummation of any acquisition of Aspen, increasing the permitted amount of letters of credit and unsecured indebtedness and increasing the threshold amounts for cross-defaults, judgment defaults, and defaults under the Employee Retirement Income Security Act of 1974, as amended. Certain of the amendments were to become effective only upon consummation of an acquisition of Aspen.

Letter of Credit Facility. On January 17, 2014, the Company and certain designated subsidiaries of the Company entered into a $50.0 million revolving letter of credit reimbursement agreement ("LOC Agreement") and cash collateral agreement with Australia and New Zealand Banking Group Limited. As of March 31, 2014, the Company had issued letters of credit of $1.4 million under the LOC Agreement. For letters of credit issued under the LOC Agreement, the Company is required to pay a fee that is negotiated at the time of issuance of the letter of credit. Letters of credit issued under the LOC Agreement are required to be collateralized with cash or investments.

Bridge Facility. On June 2, 2014, the Company entered into a commitment letter with Morgan Stanley Senior Funding, Inc. (the "Commitment Letter"). Pursuant to the Commitment Letter, Morgan Stanley Senior Funding, Inc., as lead arranger, committed to provide to the Company, subject to certain conditions, senior unsecured bank financing of up to $1.0 billion under an unsecured 364-day bridge facility (the "Bridge Facility"), which was to be used to finance a portion of the cash consideration to be paid in connection with the Company's proposed acquisition of Aspen and related costs and expenses. As of June 30, 2014, there were no borrowings under the Bridge Facility. Upon the termination by the Company on July 30, 2014 of its offer to acquire Aspen, the Bridge Facility expired pursuant to its terms. On termination of the Bridge Facility, the Company will recognize the capitalized debt issuance costs associated with the facility of $4.1 million.

Agreement with Equity Investors. On June 2, 2014, the Company entered into an agreement (the “Agreement”) terminating a prior equity commitment letter, dated January 28, 2014, pursuant to its terms. In connection with such termination, the Company extended to CVC Capital Partners Advisory (U.S.), Inc. (“CVC”) and certain permitted assignees of CVC (collectively, the “Equity Option Investors”) an equity investment option in the event that, on or prior to December 31, 2014, the Company enters into a definitive written agreement to acquire, or acquires, 95% or more of the issued and outstanding Aspen ordinary shares (the “Equity Investment Option”). Pursuant to the Equity Investment Option, if exercised, the Equity Option Investors would purchase $250.0 million of newly issued Company ordinary shares at a price of $50.03 per ordinary share, as adjusted for any stock splits, stock dividends or combinations prior to the closing of the Equity Investment Option. The Equity Investment Option would be exercisable for the sixty (60) day period following the closing of the Company’s acquisition of Aspen.

The Equity Option Investors would have certain preemptive rights with respect to future share issuances by the Company, and the purchased ordinary shares would be subject to lock-up restrictions that would limit the right of the Equity Option Investors to transfer the shares for 12 months following the exercise of the Equity Investment Option, subject to certain exceptions.

In addition to the purchase of Company ordinary shares, upon the closing of the Equity Investment Option, the Company would also grant the Equity Option Investors, on a pro rata basis, warrants to purchase a number of additional Company ordinary shares equal to 38.5% of the total number of Company ordinary shares acquired by the Equity Option Investors in connection with the Equity Investment Option, at an exercise price equal to $58.86 per share, as adjusted for any stock splits, stock dividends or combinations prior to the closing of the Equity Investment Option. The warrants would have a term of ten years from the date of the closing of the Equity Investment Option.

Upon the closing of the Equity Investment Option, CVC would have the right to nominate one individual to serve as a director of the Company, which individual shall qualify as an independent director for purposes of the NYSE rules and, except for two specified individuals, shall be subject to the approval of the Company’s board of directors (such approval not to be unreasonably withheld).

Pursuant to the Agreement, the Company also granted the Equity Option Investors a right of first refusal in the event the Company proposes to raise, on a private basis, equity capital through the sale of equity securities or securities convertible into or exchangeable or exercisable for equity securities of the Company or other equity-linked securities, the purpose of which is to partially fund the cash portion of an acquisition of Aspen completed, or for which a definitive written agreement is entered into, on or prior to December 31, 2014, or to refinance any debt incurred by the Company in connection with any such acquisition (only to the extent the proceeds of any such refinancing are specifically earmarked for such purposes). This right of first refusal is subject to certain exceptions, including with respect the to sale of equity securities to the Company’s Chief Executive Officer of up to $25.0 million and to certain other specified equity investors of up to $100.0 million. The Company does not currently intend to raise any equity capital that would be subject to the right of first refusal, but reserves the right to do so.

The Company has also agreed that, in the event any person or entity (other than certain funds advised by CVC or their affiliates) enters into a definitive written agreement to acquire or acquires more than 40% of the capital stock of the Company on or prior to December 31, 2014, the Company will pay CVC an amount equal to $26.3 million upon the closing of such transaction, less the amount of any previously reimbursed expenses.

The Charman Agreement. John R. Charman, the Company’s Chief Executive Officer, and the Company entered into an agreement on June 2, 2014, pursuant to which Mr. Charman committed to purchase, subject to the receipt of any required regulatory approvals and the completion of the Company’s acquisition of Aspen, $25.0 million of newly issued Company common shares at a price per share equal to $53.51, as adjusted for any stock splits, stock dividends or combinations prior to the closing of such investment.

Historically, the operating subsidiaries of the Company have generated sufficient cash flows to meet all of their obligations. Because of the inherent volatility of the business written by the Company, the seasonality in the timing of payments by ceding companies, the irregular timing of loss payments, the impact of a change in interest rates on the Company's investment returns as well as seasonality in coupon payment dates for fixed maturity investments, cash flows from the Company's operating activities may vary significantly between periods. The Company expects to generate positive operating cash flows through 2014, absent the occurrence of additional significant loss events. In the event that paid losses accelerate beyond the ability to fund such payments from operating cash flows, the Company would use its cash balances available, liquidate a portion of its investment portfolio, access its existing credit facility, or arrange for additional financing. There can be no assurance that the Company will be successful in executing these strategies.

Currency and Foreign Exchange

The Company's functional currencies are U.S. dollars for its U.S. and Bermuda operations and British Sterling for its U.K. operations. The reporting currency for all operations is U.S. dollars. The Company maintains a portion of its investments and liabilities in currencies other than the U.S. dollar. The Company has made a significant investment in the capitalization of Endurance U.K, which is subject to the PRA's rules concerning the matching of the currency of its assets to the currency of its liabilities. Depending on the profile of Endurance U.K.'s liabilities, it may be required to hold some of its assets in currencies corresponding to the currencies of its liabilities. The Company may, from time to time, experience gains or losses resulting from fluctuations in the values of foreign currencies, which could have a material adverse effect on the Company's results of operations.

Assets and liabilities of foreign operations whose functional currency is not the U.S. dollar are translated at exchange rates in effect at the balance sheet date. Revenues and expenses of such foreign operations are translated at average exchange rates during the year. The effect of the translation adjustments for foreign operations is included in accumulated other comprehensive income.

Other monetary assets and liabilities denominated in foreign currencies are revalued at the exchange rates in effect at the balance sheet date with the resulting foreign exchange gains and losses included in earnings. Revenues and expenses denominated in foreign currencies are translated at the prevailing exchange rate on the transaction date.

Effects of Inflation

The effects of inflation could cause the severity of claims to rise in the future. The Company's estimates for losses and loss expenses include assumptions about future payments for settlement of claims and claims handling expenses, such as medical treatments and litigation costs. To the extent inflation causes these costs to increase above reserves established for these claims, the Company will be required to increase the reserve for losses and loss expenses with a corresponding reduction in its earnings in the period in which the deficiency is identified. In addition, inflation could lead to higher interest rates causing the current unrealized gain position on the Company's fixed maturity portfolio to decrease or become an unrealized loss position. In response, the Company may choose to hold its fixed income investments to maturity, which would result in the unrealized gains largely amortizing through net investment income.

Cautionary Statement Regarding Forward-Looking Statements

Some of the statements under "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report on Form 10-Q may include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 ("PSLRA"). The PSLRA provides a "safe harbor" for forward-looking statements. These forward-looking statements reflect our current views with respect to us specifically and the insurance and reinsurance business generally, investments, capital markets and the general economic environments in which we operate. Statements which include the words "expect," "intend," "plan," "believe," "project," "anticipate," "seek," "will," and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the PSLRA or otherwise.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in such statements. We believe that these factors include, but are not limited to, the following:

- the effects of competitors' pricing policies, and of changes in laws and regulations on competition, industry consolidation and development of competing financial products;

- greater frequency or severity of claims and loss activity, including as a result of natural or man-made catastrophic events or as a result of changing climate conditions, than our underwriting, reserving or investment practices have anticipated;
- changes in market conditions in the agriculture industry, which may vary depending upon demand for agricultural products, weather, commodity prices, natural disasters, technological advances in agricultural practices, changes in U.S. and foreign legislation and policies related to agricultural products and producers;
- termination of or changes in the terms of the U.S. multiple peril crop insurance program and termination or changes to the U.S. farm bill, including modifications to the Standard Reinsurance Agreement put in place by the Risk Management Agency of the U.S. Department of Agriculture;
- decreased demand for property and casualty insurance or reinsurance or increased competition due to an increase in capacity of property and casualty insurers and reinsurers;
- changes in the availability, cost or quality of reinsurance or retrocessional coverage;
- the inability to renew business previously underwritten or acquired;
- the inability to obtain or maintain financial strength or claims-paying ratings by one or more of our subsidiaries;
- our ability to effectively integrate acquired operations and to continue to expand our business;
- uncertainties in our reserving process, including the potential for adverse development of our loss reserves or failure of our loss limitation methods;
- the ability of the counterparty institutions with which we conduct business to continue to meet their obligations to us;
- the failure or delay of the Florida Hurricane Catastrophe Fund or private market participants in Florida to promptly pay claims, particularly following a large windstorm or of multiple smaller storms;
- our continued ability to comply with applicable financial standards and restrictive covenants, the breach of which could trigger significant collateral or prepayment obligations;
- Endurance Holdings or Endurance Bermuda becomes subject to income taxes in jurisdictions outside of Bermuda;
- changes in tax regulations or laws applicable to us, our subsidiaries, brokers or customers;
- state, federal and foreign regulations that impede our ability to charge adequate rates and efficiently allocate capital;
- changes in insurance regulations in the U.S. or other jurisdictions in which we operate, including the new Federal Insurance Office within the U.S. Department of the Treasury and other regulatory changes mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 in the United States and the implementation of Solvency II by the European Commission;
- reduced acceptance of our existing or new products and services;
- loss of business provided by any one of a few brokers on whom we depend for a large portion of our revenue, and our exposure to the credit risk of our brokers;
- actions by our competitors, many of which are larger or have greater financial resources than we do;
- assessments by states for high risk or otherwise uninsured individuals;
- the impact of acts of terrorism and acts of war;

- the effects of terrorist related insurance legislation and laws;
- the inability to retain key personnel;
- political stability of Bermuda;
- changes in the political environment of certain countries in which we operate or underwrite business;
- changes in accounting regulation, policies or practices;
- our investment performance;
- the valuation of our invested assets and the determination of impairments of those assets, if any;
- the breach of our investment guidelines or the inability of those guidelines to mitigate investment risk;
- the possible further downgrade of U.S. or foreign government securities by credit rating agencies, and the resulting effect on the value of U.S. or foreign government and other securities in our investment portfolio as well as the uncertainty in the market generally;
- the need for additional capital in the future which may not be available or only available on unfavorable terms;
- the ability to maintain the availability of our systems and safeguard the security of our data in the event of a disaster or other unanticipated event; and
- changes in general economic conditions and/or industry specific conditions, including inflation, foreign currency exchange rates, interest rates, and other factors.

The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in our 2013 Form 10-K, including the risk factors set forth in Item 1A thereof. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in market risk from the information provided under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Quantitative and Qualitative Information about Market Risk” included in the Company’s 2013 Form 10-K.

Item 4. Controls and Procedures

a) Disclosure Controls and Procedures. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

(b) Internal Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's second fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

We are party to various legal proceedings generally arising in the normal course of our business. While any proceeding contains an element of uncertainty, we do not believe that the eventual outcome of any litigation or arbitration proceeding to which we are presently a party could have a material adverse effect on our financial condition or business. Pursuant to our insurance and reinsurance agreements, disputes are generally required to be finally settled by arbitration.

Item 1A. Risk Factors

Before investing in any of our securities, you should carefully consider the risk factors and all other information set forth in our 2013 Form 10-K, as supplemented by the following risk factors and other information in this Form 10-Q. These risks could materially affect our business, results of operations or financial condition and cause the trading price of our securities to decline. ***You could lose all or part of your investment.*** *The headings used in this section are solely to aid the reader as to general categories of risks related to investing in the Company. The risk factors listed may apply to more than one category or to the Company generally. Accordingly, the headings used in this section should not be construed as limiting in any manner the general applicability of any of the risk factors included in this section*

Acquisitions or strategic investments that we made or may make could turn out to be unsuccessful.

As part of our strategy, we have pursued and may continue to pursue growth through acquisitions and/or strategic investments in new businesses. Completion of such acquisitions or strategic investments is subject to a number of contingencies, including with respect to the ability to obtain required shareholder and regulatory approvals. In addition, the negotiation of potential acquisitions or strategic investments as well as the integration of an acquired business or new personnel could result in a substantial diversion of management resources. Successful integration will depend on, among other things, our ability to effectively integrate acquired businesses or new personnel into our existing risk management techniques, our ability to effectively manage any regulatory issues created by our entry into new markets and geographic locations, our ability to retain key personnel and other operational and economic factors. There can be no assurance that the integration of an acquired business or new personnel will be successful or that the business acquired will prove to be profitable or sustainable. The failure to integrate successfully or to manage the challenges presented by the integration process may adversely impact our financial results. Acquisitions could involve numerous additional risks such as potential losses from unanticipated litigation or levels of claims and inability to generate sufficient revenue to offset acquisition costs.

Our ability to manage our growth through acquisitions or strategic investments will depend, in part, on our success in addressing these risks. Any failure by us to effectively implement our acquisitions or strategic investment strategies could have a material adverse effect on our business, financial condition or results of operations.

The market for our ordinary shares may be adversely affected by the issuance of additional ordinary shares, including pursuant to a proposed acquisition.

We cannot predict what effect, if any, future sales of our ordinary shares, or the availability of ordinary shares for future sale, will have on the market price of our ordinary shares. In connection with the completion of a proposed acquisition, we may issue additional ordinary shares. The increase in the number of our ordinary shares may lead to sales of such shares or the perception that such sales may occur, either of which may adversely affect the market for, and the market price of, our ordinary shares and may make it more difficult for you to sell your ordinary shares at a time and price that you deem appropriate.

The impact of any proposed acquisition is not reflected in our financial statements and could affect our results of operations and financial condition in the future.

Our financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2013 Form 10-K assume the Company on a stand-alone basis and do not give effect to the potential impact of any proposed acquisition. Our future performance could be affected by a proposed acquisition, including as a result of the business development costs that may be incurred in connection therewith (regardless of whether we are successful in completing a proposed acquisition). If a proposed acquisition is completed, our future financial statements are expected to be significantly different from the financial statements included in our 2013 Form 10-K.

Other than set forth above, there have been no material changes to the risk factors disclosed in Item 1A. Risk Factors in our 2013 Form 10-K.

Table of Contents

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

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased(1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1) (2)	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(1) (2)
April 1, 2014 – April 30, 2014	—	$ —	—	5,000,000
May 1, 2014 – May 31, 2014	—	$ —	—	5,000,000
June 1, 2014 – June 30, 2014	—	$ —	—	5,000,000
Total	—	$ —	—	5,000,000

(1) Ordinary shares or share equivalents.

(2) At its meeting on February 27, 2014, the Board of Directors of the Company authorized the repurchase of up to a total of 5,000,000 ordinary shares and share equivalents through February 28, 2016, superseding all previous authorizations.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

(a) The following sets forth those exhibits filed pursuant to Item 601 of Regulation S-K:

Exhibit Number	Description
10.1	Commitment Letter, dated June 2, 2014, between Morgan Stanley Senior Funding, Inc. and Endurance Specialty Holdings Ltd. Incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on June 6, 2014.
10.2	Agreement, dated June 2, 2014, by and among Endurance Specialty Holdings Ltd., CVC Capital Partners Advisory (U.S.), Inc., GIC Special Investments Pte. Ltd. and certain affiliates thereof. Incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on June 6, 2014.
10.3	Letter Agreement, dated June 2, 2014, between John R. Charman and Endurance Specialty Holdings Ltd. Incorporated herein by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on June 6, 2014.
10.5	Joinder Agreement to Commitment Letter, dated June 25, 2014. Incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on June 27, 2014.
10.6	First Amendment, dated June 25, 2014, to the Credit Agreement and the Security Agreement, each dated as of April 19, 2012. Incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on June 27, 2014.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act.
32	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets as at June 30, 2014 (unaudited) and December 31, 2013; (ii) the Unaudited Condensed Consolidated Statements of Income and Comprehensive Income for the six months ended June 30, 2014 and 2013; (iii) the Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2014 and 2013; (iv) the Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013; and (v) the Notes to the Unaudited Condensed Consolidated Financial Statements for the six months ended June 30, 2014 and 2013.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		ENDURANCE SPECIALTY HOLDINGS LTD.
Date: August 7, 2014	By:	/s/ John R. Charman John R. Charman Chief Executive Officer
Date: August 7, 2014	By:	/s/ Michael J. McGuire Michael J. McGuire Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1

Endurance Specialty Holdings Ltd.
Certification of Chief Executive Officer
Pursuant to Rule 13a-14(a)

I, John R. Charman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Endurance Specialty Holdings Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2014

By: /s/ John R. Charman
Chief Executive Officer

Exhibit 31.2

Endurance Specialty Holdings Ltd.
Certification of Chief Financial Officer
Pursuant to Rule 13a-14(a)

I, Michael J. McGuire, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Endurance Specialty Holdings Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2014

By: /s/ Michael J. McGuire
Chief Financial Officer

Exhibit 32

Endurance Specialty Holdings Ltd.

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Endurance Specialty Holdings Ltd. (the “Company”) for the quarterly period ended June 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, in the capacities and on the dates indicated below, each hereby certify pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that (1) to the best of his knowledge the Report fully complies with requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 7, 2014

By: /s/ John R. Charman
John R. Charman
Chief Executive Officer

Date: August 7, 2014

By: /s/ Michael J. McGuire
Michael J. McGuire
Chief Financial Officer

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.