

WESTPAC BANKING CORP
Form 6-K
March 11, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 UNDER THE
SECURITIES EXCHANGE ACT OF 1934**

March 11, 2011

Commission File Number 1-10167

WESTPAC BANKING CORPORATION

(Translation of registrant's name into English)

275 KENT STREET, SYDNEY, NEW SOUTH WALES 2000, AUSTRALIA

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F

Form 40-F

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Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Act of 1934.

Yes No

If is marked, indicate the file number assigned to the registrant in connection with Rule 12g3-2(b):82-

Index to Exhibits

Exhibit No.	Description
1	Media Release: Bank of Melbourne to launch in August 2011
2	ASX Release: The Westpac Group finalises impact of tax consolidation of St.George Bank merger

Disclosure regarding forward-looking statements

The information contained in this Report on Form 6-K contains statements that constitute forward-looking statements within the meaning of section 21E of the U.S. Securities Exchange Act of 1934. The forward-looking statements include statements regarding our intent, belief or current expectations with respect to our business and operations and results of operations and financial condition.

We use words such as may, expect, indicative, intend, forecast, likely, estimate, anticipate, believe or similar words to identify forward-looking statements. These statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of the risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from the expectations described herein. Factors that may impact on the forward-looking statements made include those described in the section entitled Risk and risk management in Westpac's 2010 Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission. When relying on forward-looking statements to make decisions with respect to us, investors and others should carefully consider such factors and other uncertainties and events. We are under no obligation, and do not intend, to update any forward-looking statements contained in these materials.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WESTPAC BANKING CORPORATION
(Registrant)

Date: March 11, 2011

By: /s/ Sean Crellin
Sean Crellin
Director, Legal

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LIGN="bottom"> (31,499) (108,972)

Ending balance

\$520,890 \$157,959 \$117,586 \$

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

	Other invested assets	Mortgage-backed	Asset-backed	Equities
Six Months Ended June 30, 2013				
Opening balance	\$ 655,888	\$ 167,825	\$ 62,246	\$ 54,680
Realized and unrealized gains (losses) included in net income	43,962	(7,613)	(382)	(1,181)
Purchases	169,952	71,752	24,782	
Sales	(155,411)	(29,864)	(18,478)	
Transfers into Level 3 from Level 2		7,109		
Transfers out of Level 3 into Level 2 (1)		(11,206)	(6,883)	
Ending balance	\$ 714,391	\$ 198,003	\$ 61,285	\$ 53,499
Six Months Ended June 30, 2012				
Opening balance	\$ 540,409	\$ 249,204	\$ 94,745	\$
Realized and unrealized gains included in net income	14,882	4,324	904	
Purchases	17,778	41,376	31,580	
Sales	(52,179)	(108,165)	(48,133)	
Transfers into Level 3 from Level 2		4,495	55,498	
Transfers out of Level 3 into Level 2 (1)		(33,275)	(17,008)	
Ending balance	\$ 520,890	\$ 157,959	\$ 117,586	\$

(1) Transfers out of Level 3 are primarily attributable to the availability of market observable information.

The Company attempts to verify the significant inputs used by broker-dealers in determining the fair value of the securities priced by them. If the Company could not obtain sufficient information to determine if the broker-dealers were using significant observable inputs, then such securities have been transferred to the Level 3 fair value hierarchy. The Company believes the prices obtained from the broker-dealers are the best estimate of fair value of the securities being priced as the broker-dealers are typically involved in the initial pricing of the security, and the Company has compared the price per the broker-dealer to other pricing sources and noted no material differences. The Company recognizes transfers between levels at the end of the reporting period. There were no transfers between Level 1 and Level 2 during the period.

The Company's external investment accounting service provider receives prices from internationally recognized independent pricing services to measure the fair values of its fixed maturity investments. Pricing sources are evaluated and selected in a manner to ensure that the most reliable sources are used. The Company uses a pricing service ranking to consistently select the most appropriate pricing service in instances where it receives multiple quotes on the same security. The Company obtains multiple quotes for the majority of its securities. The independent pricing sources obtain market quotations and actual transaction prices for securities that have quoted prices in active markets. Each pricing service has its own proprietary method for determining the fair value of securities that are not actively traded. In general, these methods involve the use of matrix pricing in which the independent pricing service uses observable market inputs, including, but not limited to, reported trades, benchmark yields, broker-dealer quotes, interest rates, prepayment speeds, default rates and such other inputs as are available from market sources to determine a reasonable fair value.

All of the Company's securities classified as Level 3, other than investments in other invested assets, are valued based on unadjusted broker-dealer quotes. This includes less liquid securities such as lower quality asset-backed securities, commercial mortgage-backed securities and residential mortgage-backed securities. The primary valuation inputs include monthly payment information, the probability of default, loss severity rates and estimated prepayment rates. Significant changes in these inputs in isolation would result in a significantly lower or higher fair value measurement. In general, a change in the assumption of the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity in an event of default and prepayment rates.

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The Company records the unadjusted price provided and validates this price through a process that includes, but is not limited to, monthly and/or quarterly: (i) comparison of prices between two independent sources, with significant differences requiring additional price sources; (ii) quantitative analysis (e.g., comparing the quarterly return for each managed portfolio to their target benchmark, with

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significant differences identified and investigated); (iii) evaluation of methodologies used by external parties to calculate fair value, including a review of the inputs used for pricing; (iv) comparing the price to the Company's knowledge of the current investment market; and (v) back-testing, which includes randomly selecting purchased or sold securities and comparing the executed prices to the fair value estimates from the pricing service. In addition to internal controls, management relies on the effectiveness of the valuation controls in place at the Company's external investment accounting service provider (supported by a Statement on Standards for Attestation Engagements No. 16 report) in conjunction with regular discussion and analysis of the investment portfolio's structure and performance.

7. RESERVE FOR LOSSES AND LOSS EXPENSES

The reserve for losses and loss expenses consists of the following:

	June 30, 2013	December 31, 2012
Outstanding loss reserves	\$ 1,509,350	\$ 1,539,114
Reserves for losses incurred but not reported	4,187,515	4,106,435
Reserve for losses and loss expenses	\$ 5,696,865	\$ 5,645,549

The table below is a reconciliation of the beginning and ending liability for unpaid losses and loss expenses. Losses incurred and paid are reflected net of reinsurance recoverables.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Gross liability at beginning of period	\$ 5,673,220	\$ 5,331,418	\$ 5,645,549	\$ 5,225,143
Reinsurance recoverable at beginning of period	(1,163,503)	(1,056,780)	(1,141,110)	(1,002,919)
Net liability at beginning of period	4,509,717	4,274,638	4,504,439	4,222,224
Net losses incurred related to:				
Current year	323,556	282,302	622,804	546,986
Prior years	(48,428)	(41,922)	(92,498)	(81,404)
Total incurred	275,128	240,380	530,306	465,582
Net paid losses related to:				
Current year	21,003	18,226	24,584	19,840
Prior years	241,764	186,891	482,885	362,411
Total paid	262,767	205,117	507,469	382,251
Foreign exchange revaluation	(4,738)	(5,995)	(9,936)	(1,649)

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Net liability at end of period	4,517,340	4,303,906	4,517,340	4,303,906
Reinsurance recoverable at end of period	1,179,525	1,073,612	1,179,525	1,073,612
Gross liability at end of period	\$ 5,696,865	\$ 5,377,518	\$ 5,696,865	\$ 5,377,518

For the three months ended June 30, 2013, the Company had net favorable reserve development in each of its segments due to actual loss emergence being lower than initially expected. The majority of the net favorable reserve development was recognized in the 2007 through 2010 loss years across most lines of business. In addition, the reinsurance segment recognized net favorable reserve development for the 2012 loss year due to the low level of reported property losses. This was partially offset by adverse development in the U.S. insurance segment in the 2011 and 2012 loss years.

For the six months ended June 30, 2013, the Company had net favorable reserve development in its international and reinsurance segments due to actual loss emergence being lower than initially expected, primarily for loss years 2004 to 2008. The reinsurance segment recognized net favorable reserve development for the 2012 loss year due to the low level of reported property losses. This was partially offset by adverse development in the U.S. insurance segment in the 2011 and 2012 loss years for certain errors and omissions and directors and officers classes of business.

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For the three months ended June 30, 2012, the Company had net favorable reserve development in each of its segments due to actual loss emergence being lower than initially expected. The majority of the net favorable reserve development was recognized by each segment in the 2004 through 2009 loss years across most lines of business.

For the six months ended June 30, 2012, the Company had net favorable reserve development in each of its segments due to actual loss emergence being lower than initially expected. The majority of the net favorable reserve development was recognized in the international insurance and reinsurance segments in the 2004 through 2008 loss years.

While the Company has experienced favorable reserve development in its insurance and reinsurance lines, there is no assurance that conditions and trends that have affected the development of liabilities in the past will continue. It is not appropriate to extrapolate future redundancies based on prior years' development. The methodology of estimating loss reserves is periodically reviewed to ensure that the key assumptions used in the actuarial models continue to be appropriate.

8. INCOME TAXES

Under Swiss law, a resident company is subject to income tax at the federal, cantonal and communal levels that is levied on net income. Income attributable to permanent establishments or real estate located abroad is excluded from the Swiss tax base. Allied World Switzerland is a holding company and, therefore, is exempt from cantonal and communal income tax. As a result, Allied World Switzerland is subject to Swiss income tax only at the federal level. Allied World Switzerland is a resident of the Canton of Zug and, as such, is subject to an annual cantonal and communal capital tax on the taxable equity of Allied World Switzerland. Allied World Switzerland has a Swiss operating company resident in the Canton of Zug. The operating company is subject to federal, cantonal and communal income tax and to annual cantonal and communal capital tax.

Under current Bermuda law, Allied World Assurance Company Holdings, Ltd (Allied World Bermuda) and its Bermuda subsidiaries are not required to pay taxes in Bermuda on either income or capital gains. Allied World Bermuda and Allied World Assurance Company, Ltd have received an assurance from the Bermuda Minister of Finance under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that in the event of any such taxes being imposed, Allied World Bermuda and Allied World Assurance Company, Ltd will be exempted until March 2035.

Certain subsidiaries of Allied World Switzerland file U.S. federal income tax returns and various U.S. state income tax returns, as well as income tax returns in the United Kingdom, Ireland, Switzerland, Hong Kong and Singapore. To the best of the Company's knowledge, there are no income tax examinations pending by any tax authority.

Management has deemed all material tax positions to have a greater than 50% likelihood of being sustained based on technical merits if challenged. The Company does not expect any material unrecognized tax benefits within 12 months of June 30, 2013.

9. SHAREHOLDERS' EQUITY*a) Authorized shares*

The issued share capital consists of the following:

	June 30, 2013	December 31, 2012
Common shares issued and fully paid, 2013: CHF 12.30 per share; 2012: CHF 12.64 per share	35,429,423	36,369,868

Share capital at end of period	\$ 430,397	\$ 454,980
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(Expressed in thousands, except share, per share, percentage and ratio information)

	Six Months Ended June 30, 2013
Shares issued at beginning of period	36,369,868
Shares cancelled	(940,445)
Total shares issued at end of period	35,429,423
Treasury shares issued at beginning of period	1,572,087
Shares repurchased	940,445
Shares issued out of treasury	(318,495)
Shares cancelled	(940,445)
Total treasury shares at end of period	1,253,592
Total shares outstanding at end of period	34,175,831

During the six months ended June 30, 2013, 940,445 voting shares repurchased and designated for cancellation were constructively retired and cancelled.

Allied World Switzerland's articles of association authorized its Board of Directors to increase the share capital by a maximum of up to CHF 92,259 or 7,500,728 voting shares.

b) Dividends

The Company paid the following dividend during the six months ended June 30, 2013:

Dividend Paid	Partial Par Value Reduction Per Share	Dividend Per Share	Total Amount Paid
March 12, 2013	CHF 0.34	\$ 0.375	\$ 12,981

On May 3, 2012, the shareholders approved the Company's proposal to pay cash dividends in the form of a distribution by way of par value reductions. The aggregate reduction amount was paid to shareholders in four installments of \$0.375 per share, with the last of such quarterly dividend payments being made on March 12, 2013.

On May 2, 2013, the shareholders approved the Company's proposal to pay cash dividends in the form of a distribution out of general legal reserve from capital contributions. The distribution amount will be paid to shareholders in quarterly installments of \$0.50 per share. The first installment of the dividend was paid on July 3, 2013. The Company expects to distribute the remaining installments of the dividend in October 2013, January 2014 and April 2014.

c) Share Repurchases

In May 2012, the Company established a new share repurchase program in order to repurchase up to \$500,000 of its common shares. Repurchases may be effected from time to time through open market purchases, privately negotiated transactions, tender offers or otherwise. The timing, form and amount of the share repurchases under the program will depend on a variety of factors, including market conditions, the

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Company's capital position, legal requirements and other factors. Under the terms of this new share repurchase program, common shares repurchased shall be designated for cancellation at acquisition and shall be cancelled upon shareholder approval.

Shares repurchased by the Company and not designated for cancellation are classified as Treasury shares, at cost on the consolidated balance sheets. The Company will issue shares out of treasury principally related to the Company's employee benefit plans. Shares repurchased and designated for cancellation are constructively retired and recorded as a share cancellation.

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The Company's share repurchases were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Common shares repurchased	508,328	905,383	940,445	2,336,187
Total cost of shares repurchased	\$ 46,326	\$ 66,435	\$ 82,571	\$ 159,458
Average price per share	\$ 91.13	\$ 73.38	\$ 87.80	\$ 68.26

10. EARNINGS PER SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Basic (loss) earnings per share:				
Net (loss) income	\$ (1,862)	\$ 96,351	\$ 157,130	\$ 314,507
Weighted average common shares outstanding	34,422,553	36,288,596	34,517,552	36,746,881
Basic (loss) earnings per share	\$ (0.05)	\$ 2.66	\$ 4.55	\$ 8.56

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Diluted (loss) earnings per share:				
Net (loss) income	\$ (1,862)	\$ 96,351	\$ 157,130	\$ 314,507
Weighted average common shares outstanding	34,422,553	36,288,596	34,517,552	36,746,881
Share equivalents:				
Options		440,811	493,225	413,702
Restricted stock units and performance-based equity awards		460,315	304,529	234,976
Employee share purchase plan			1,289	
Weighted average common shares and common share equivalents outstanding - diluted	34,422,553	37,189,722	35,316,595	37,395,559
Diluted (loss) earnings per share	\$ (0.05)	\$ 2.59	\$ 4.45	\$ 8.41

For the three months ended June 30, 2013, there were no common share equivalents included in calculating diluted earnings per share as there was a net loss and any additional shares would be anti-dilutive. For the three months ended June 30, 2012, a weighted average of 337,153 employee stock options and restricted stock units (RSUs) were considered anti-dilutive and were therefore excluded from the calculation of the diluted earnings per share, respectively.

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For the six months ended June 30, 2013 and 2012, a weighted average of 0 and 343,726 employee stock options and RSUs were considered anti-dilutive and were therefore excluded from the calculation of the diluted earnings per share, respectively.

11. SEGMENT INFORMATION

The determination of reportable segments is based on how senior management monitors the Company's underwriting operations. Management monitors the performance of its direct underwriting operations based on the geographic location of the Company's offices, the markets and customers served and the type of accounts written. The Company is currently organized into three operating segments: U.S. insurance, international insurance and reinsurance. All product lines fall within these classifications.

The U.S. insurance segment includes the Company's direct specialty insurance operations in the United States. This segment provides both direct property and specialty casualty insurance primarily to non-Fortune 1000 North American domiciled accounts.

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The international insurance segment includes the Company's direct insurance operations in Bermuda, Europe, Singapore and Hong Kong. This segment provides both direct property and casualty insurance primarily to Fortune 1000 North American domiciled accounts from the Bermuda office and direct property and specialty casualty insurance to our non-North American domiciled accounts from the European, Singapore and Hong Kong offices. The reinsurance segment includes the Company's reinsurance operations in the United States, Bermuda, Europe, Singapore and Hong Kong. This segment provides reinsurance of property, general casualty, professional liability, specialty lines and property catastrophe coverages written by insurance companies. The Company presently writes reinsurance on both a treaty and a facultative basis, targeting several niche reinsurance markets.

Responsibility and accountability for the results of underwriting operations are assigned by major line of business within each segment. Because the Company does not manage its assets by segment, investment income, interest expense and total assets are not allocated to individual reportable segments. General and administrative expenses are allocated to segments based on various factors, including staff count and each segment's proportional share of gross premiums written.

Management measures results for each segment on the basis of the loss and loss expense ratio, acquisition cost ratio, general and administrative expense ratio and the combined ratio. The loss and loss expense ratio is derived by dividing net losses and loss expenses by net premiums earned. The acquisition cost ratio is derived by dividing acquisition costs by net premiums earned. The general and administrative expense ratio is derived by dividing general and administrative expenses by net premiums earned. The combined ratio is the sum of the loss and loss expense ratio, the acquisition cost ratio and the general and administrative expense ratio.

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

The following tables provide a summary of the segment results:

Three Months Ended June 30, 2013	U.S. Insurance	International Insurance	Reinsurance	Total
Gross premiums written	\$ 307,297	\$ 192,593	\$ 265,310	\$ 765,200
Net premiums written	221,419	106,394	253,409	581,222
Net premiums earned	197,436	87,041	222,794	507,271
Net losses and loss expenses	(124,364)	(30,968)	(119,796)	(275,128)
Acquisition costs	(27,270)	358	(37,705)	(64,617)
General and administrative expenses	(38,302)	(24,135)	(18,148)	(80,585)
Underwriting income	7,500	32,296	47,145	86,941
Net investment income				37,635
Net realized investment losses				(115,198)
Amortization of intangible assets				(634)
Interest expense				(14,188)
Foreign exchange loss				(490)
Loss before income taxes				\$ (5,934)
Loss and loss expense ratio	63.0%	35.6%	53.8%	54.2%
Acquisition cost ratio	13.8%	(0.4%)	16.9%	12.7%
General and administrative expense ratio	19.4%	27.7%	8.1%	15.9%
Combined ratio	96.2%	62.9%	78.8%	82.8%

Three Months Ended June 30, 2012	U.S. Insurance	International Insurance	Reinsurance	Total
Gross premiums written	\$ 265,974	\$ 183,593	\$ 197,303	\$ 646,870
Net premiums written	196,661	111,342	186,707	494,710
Net premiums earned	162,785	82,605	184,357	429,747
Net losses and loss expenses	(103,074)	(22,233)	(115,073)	(240,380)
Acquisition costs	(21,250)	582	(30,920)	(51,588)
General and administrative expenses	(34,730)	(21,648)	(17,601)	(73,979)
Underwriting income	3,731	39,306	20,763	63,800
Net investment income				42,451
Net realized investment gains				8,663
Amortization of intangible assets				(634)
Interest expense				(14,001)
Foreign exchange gain				1,019
Income before income taxes				\$ 101,298

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Loss and loss expense ratio	63.3%	26.9%	62.4%	55.9%
Acquisition cost ratio	13.1%	(0.7%)	16.8%	12.0%
General and administrative expense ratio	21.3%	26.2%	9.5%	17.2%
Combined ratio	97.7%	52.4%	88.7%	85.1%

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

Six Months Ended June 30, 2013	U.S. Insurance	International Insurance	Reinsurance	Total
Gross premiums written	\$ 563,315	\$ 321,109	\$ 717,857	\$ 1,602,281
Net premiums written	413,672	184,139	678,463	1,276,274
Net premiums earned	385,875	171,255	413,369	970,499
Net losses and loss expenses	(257,688)	(59,903)	(212,715)	(530,306)
Acquisition costs	(50,398)	1,207	(72,111)	(121,302)
General and administrative expenses	(77,898)	(48,924)	(36,443)	(163,265)
Underwriting (loss) income	(109)	63,635	92,100	155,626
Net investment income				71,023
Net realized investment losses				(35,561)
Amortization of intangible assets				(1,267)
Interest expense				(28,322)
Foreign exchange loss				(3,008)
Income before income taxes				\$ 158,491
Loss and loss expense ratio	66.8%	35.0%	51.5%	54.6%
Acquisition cost ratio	13.1%	(0.7%)	17.4%	12.5%
General and administrative expense ratio	20.2%	28.6%	8.8%	16.8%
Combined ratio	100.1%	62.9%	77.7%	83.9%

Six Months Ended June 30, 2012	U.S. Insurance	International Insurance	Reinsurance	Total
Gross premiums written	\$ 470,185	\$ 297,183	\$ 560,431	\$ 1,327,799
Net premiums written	350,507	183,951	549,205	1,083,663
Net premiums earned	316,143	162,476	353,018	831,637
Net losses and loss expenses	(200,778)	(60,333)	(204,471)	(465,582)
Acquisition costs	(41,222)	1,110	(58,614)	(98,726)
General and administrative expenses	(65,774)	(44,049)	(34,522)	(144,345)
Underwriting income	8,369	59,204	55,411	122,984
Net investment income				89,660
Net realized investment gains				142,244
Amortization of intangible assets				(1,267)
Interest expense				(27,757)
Foreign exchange gain				1,100
Income before income taxes				\$ 326,964
Loss and loss expense ratio	63.5%	37.1%	57.9%	56.0%
Acquisition cost ratio	13.0%	(0.7%)	16.6%	11.9%
General and administrative expense ratio	20.8%	27.1%	9.8%	17.3%

Combined ratio	97.3%	63.5%	84.3%	85.2%
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(Expressed in thousands, except share, per share, percentage and ratio information)

The following table shows an analysis of the Company's gross premiums written by geographic location of the Company's subsidiaries. All intercompany premiums have been eliminated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
United States	\$ 440,151	\$ 349,577	\$ 918,594	\$ 738,548
Bermuda	211,040	193,195	439,712	375,358
Europe	60,234	60,008	146,743	135,384
Singapore	48,918	40,128	87,031	69,311
Hong Kong	4,857	3,962	10,201	9,198
Total gross premiums written	\$ 765,200	\$ 646,870	\$ 1,602,281	\$ 1,327,799

Europe includes gross premiums written attributable to Switzerland of \$5,868 and \$4,071 for the three months ended June 30, 2013 and 2012, respectively, and \$46,674 and \$33,435 for the six months ended June 30, 2013 and 2012, respectively.

12. COMMITMENTS AND CONTINGENCIES

The Company, in common with the insurance industry in general, is subject to litigation and arbitration in the normal course of its business. These legal proceedings generally relate to claims asserted by or against the Company in the ordinary course of insurance or reinsurance operations. Estimated amounts payable under these proceedings are included in the reserve for losses and loss expenses in the Company's consolidated balance sheets. As of June 30, 2013, the Company was not a party to any material legal proceedings arising outside the ordinary course of business that management believes will have a material adverse effect on the Company's results of operations, financial position or cash flow.

13. CONDENSED CONSOLIDATED GUARANTOR FINANCIAL STATEMENTS

The following tables present unaudited condensed consolidating financial information as of June 30, 2013 and December 31, 2012 and for the three and six months ended June 30, 2013 and 2012 for Allied World Switzerland (the Parent Guarantor) and Allied World Bermuda (the Subsidiary Issuer). The Subsidiary Issuer is a direct, 100%-owned subsidiary of the Parent Guarantor. Investments in subsidiaries are accounted for by the Parent Guarantor under the equity method for purposes of the supplemental consolidating presentation. Earnings of subsidiaries are reflected in the Parent Guarantor's investment accounts and earnings. The Parent Guarantor fully and unconditionally guarantees the senior notes issued by the Subsidiary Issuer.

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

Unaudited Condensed Consolidating Balance Sheet:

As of June 30, 2013	Allied World Switzerland (Parent Guarantor)	Allied World Bermuda (Subsidiary Issuer)	Other Allied World Subsidiaries	Consolidating Adjustments	Allied World Switzerland Consolidated
ASSETS:					
Investments	\$	\$	\$ 7,775,803	\$	\$ 7,775,803
Cash and cash equivalents	3,676	8,299	662,128		674,103
Insurance balances receivable			814,620		814,620
Funds held			387,599		387,599
Reinsurance recoverable			1,179,525		1,179,525
Net deferred acquisition costs			153,812		153,812
Goodwill and intangible assets			318,474		318,474
Balances receivable on sale of investments			277,025		277,025
Investments in subsidiaries	3,357,144	4,480,926		(7,838,070)	
Due (to) from subsidiaries	29,968	(2,234)	(27,734)		
Other assets	1,144	5,410	677,362		683,916
Total assets	\$ 3,391,932	\$ 4,492,401	\$ 12,218,614	\$ (7,838,070)	\$ 12,264,877
LIABILITIES:					
Reserve for losses and loss expenses	\$	\$	\$ 5,696,865	\$	\$ 5,696,865
Unearned premiums			1,586,327		1,586,327
Reinsurance balances payable			205,884		205,884
Balances due on purchases of investments			487,063		487,063
Senior notes		798,355			798,355
Other liabilities	18,703	18,246	80,205		117,154
Total liabilities	18,703	816,601	8,056,344		8,891,648
Total shareholders equity	3,373,229	3,675,800	4,162,270	(7,838,070)	3,373,229
Total liabilities and shareholders equity	\$ 3,391,932	\$ 4,492,401	\$ 12,218,614	\$ (7,838,070)	\$ 12,264,877

Table of Contents**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

As of December 31, 2012	Allied World Switzerland (Parent Guarantor)	Allied World Bermuda (Subsidiary Issuer)	Other Allied World Subsidiaries	Consolidating Adjustments	Allied World Switzerland Consolidated
ASSETS:					
Investments	\$	\$	\$ 7,933,937	\$	\$ 7,933,937
Cash and cash equivalents	19,997	11,324	650,558		681,879
Insurance balances receivable			510,532		510,532
Funds held			336,368		336,368
Reinsurance recoverable			1,141,110		1,141,110
Net deferred acquisition costs			108,010		108,010
Goodwill and intangible assets			319,741		319,741
Balances receivable on sale of investments			418,879		418,879
Investments in subsidiaries	3,337,446	4,768,769		(8,106,215)	
Due (to) from subsidiaries	(23,864)	(7,173)	31,037		
Other assets	1,499	6,081	571,910		579,490
Total assets	\$ 3,335,078	\$ 4,779,001	\$ 12,022,082	\$ (8,106,215)	\$ 12,029,946
LIABILITIES:					
Reserve for losses and loss expenses	\$	\$	\$ 5,645,549	\$	\$ 5,645,549
Unearned premiums			1,218,021		1,218,021
Reinsurance balances payable			136,264		136,264
Balances due on purchases of investments			759,934		759,934
Senior notes		798,215			798,215
Other liabilities	8,743	17,727	119,158		145,628
Total liabilities	8,743	815,942	7,878,926		8,703,611
Total shareholders equity	3,326,335	3,963,059	4,143,156	(8,106,215)	3,326,335
Total liabilities and shareholders equity	\$ 3,335,078	\$ 4,779,001	\$ 12,022,082	\$ (8,106,215)	\$ 12,029,946

Table of Contents**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

Unaudited Condensed Consolidating Income Statement:

	Allied World Switzerland (Parent Guarantor)	Allied World Bermuda (Subsidiary Issuer)	Other Allied World Subsidiaries	Consolidating Adjustments	Allied World Switzerland Consolidated
Three Months Ended June 30, 2013					
Net premiums earned	\$	\$	\$ 507,271	\$	\$ 507,271
Net investment income	1	2	37,632		37,635
Net realized investment losses			(115,198)		(115,198)
Net losses and loss expenses			(275,128)		(275,128)
Acquisition costs			(64,617)		(64,617)
General and administrative expenses	(8,566)	(455)	(71,564)		(80,585)
Amortization of intangible assets			(634)		(634)
Interest expense		(13,835)	(353)		(14,188)
Foreign exchange gain (loss)	2	(628)	136		(490)
Income tax (expense) benefit			4,072		4,072
Equity in earnings of consolidated subsidiaries	6,701	21,147		(27,848)	
NET INCOME (LOSS)	\$ (1,862)	\$ 6,231	\$ 21,617	\$ (27,848)	\$ (1,862)
Other comprehensive income					
COMPREHENSIVE INCOME (LOSS)	\$ (1,862)	\$ 6,231	\$ 21,617	\$ (27,848)	\$ (1,862)
Three Months Ended June 30, 2012					
Net premiums earned	\$	\$	\$ 429,747	\$	\$ 429,747
Net investment income	5	8	42,438		42,451
Net realized investment gains			8,663		8,663
Net losses and loss expenses			(240,380)		(240,380)
Acquisition costs			(51,588)		(51,588)
General and administrative expenses	(4,278)	(1,302)	(68,399)		(73,979)
Amortization of intangible assets			(634)		(634)
Interest expense		(14,001)			(14,001)
Foreign exchange gain (loss)	460	(42)	601		1,019
Income tax (expense) benefit	(373)		(4,574)		(4,947)
Equity in earnings of consolidated subsidiaries	100,537	115,102		(215,639)	
NET INCOME (LOSS)	\$ 96,351	\$ 99,765	\$ 115,874	\$ (215,639)	\$ 96,351
Unrealized gains on investments arising during the period net of applicable deferred income tax benefit of \$68	231		231	(231)	231

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Reclassification adjustment for net realized investment gains included in net income, net of applicable income tax	(1,142)		(1,142)	1,142	(1,142)
Other comprehensive loss	(911)		(911)	911	(911)
COMPREHENSIVE INCOME (LOSS)	\$ 95,440	\$ 99,765	\$ 114,963	\$ (214,728)	\$ 95,440

Table of Contents**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

	Allied World Switzerland (Parent Guarantor)	Allied World Bermuda (Subsidiary Issuer)	Other Allied World Subsidiaries	Consolidating Adjustments	Allied World Switzerland Consolidated
Six Months Ended June 30, 2013					
Net premiums earned	\$	\$	\$ 970,499	\$	\$ 970,499
Net investment income	8	4	71,011		71,023
Net realized investment losses			(35,561)		(35,561)
Net losses and loss expenses			(530,306)		(530,306)
Acquisition costs			(121,302)		(121,302)
General and administrative expenses	(19,552)	(912)	(142,801)		(163,265)
Amortization of intangible assets			(1,267)		(1,267)
Interest expense		(27,665)	(657)		(28,322)
Foreign exchange loss (gain)	274	(723)	(2,559)		(3,008)
Income tax (expense) benefit			(1,361)		(1,361)
Equity in earnings of consolidated subsidiaries	176,400	202,627		(379,027)	
NET INCOME (LOSS)	\$ 157,130	\$ 173,331	\$ 205,696	\$ (379,027)	\$ 157,130
Other comprehensive income					
COMPREHENSIVE INCOME (LOSS)	\$ 157,130	\$ 173,331	\$ 205,696	\$ (379,027)	\$ 157,130
Six Months Ended June 30, 2012					
Net premiums earned	\$	\$	\$ 831,637	\$	\$ 831,637
Net investment income	14	11	89,635		89,660
Net realized investment gains			142,244		142,244
Net losses and loss expenses			(465,582)		(465,582)
Acquisition costs			(98,726)		(98,726)
General and administrative expenses	(8,234)	(2,454)	(133,657)		(144,345)
Amortization of intangible assets			(1,267)		(1,267)
Interest expense		(27,757)			(27,757)
Foreign exchange gain (loss)	549	(67)	618		1,100
Income tax (expense) benefit	71		(12,528)		(12,457)
Equity in earnings of consolidated subsidiaries	322,107	349,409		(671,516)	
NET INCOME (LOSS)	\$ 314,507	\$ 319,142	\$ 352,374	\$ (671,516)	\$ 314,507
Unrealized gains on investments arising during the period net of applicable deferred income tax expense of \$3,051	179		179	(179)	179
Reclassification adjustment for net realized investment gains included in net income, net of applicable income tax	(13,249)		(13,249)	13,249	(13,249)
Other comprehensive loss	(13,070)		(13,070)	13,070	(13,070)

COMPREHENSIVE INCOME (LOSS)	\$ 301,437	\$ 319,142	\$ 339,304	\$ (658,446)	\$ 301,437
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Table of Contents**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

Unaudited Condensed Consolidating Cash Flows:

Six Months Ended June 30, 2013	Allied World Switzerland (Parent Guarantor)	Allied World Bermuda (Subsidiary Issuer)	Other Allied World Subsidiaries	Consolidating Adjustments	Allied World Switzerland Consolidated
CASH FLOWS PROVIDED BY (USED IN)					
OPERATING ACTIVITIES	\$ 73,938	\$ (3,025)	\$ 54,993	\$	\$ 125,906
CASH FLOWS PROVIDED BY (USED IN)					
INVESTING ACTIVITIES:					
Purchases trading securities			(3,186,162)		(3,186,162)
Purchases of other invested assets			(141,805)		(141,805)
Sales of available for sale securities					
Sales of trading securities			3,171,977		3,171,977
Sales of other invested assets			126,491		126,491
Other			(13,924)		(13,924)
Net cash provided by (used in) investing activities			(43,423)		(43,423)
CASH FLOWS PROVIDED BY (USED IN)					
FINANCING ACTIVITIES:					
Partial par value reduction	(12,981)				(12,981)
Proceeds from the exercise of stock options	5,293				5,293
Share repurchases	(82,571)				(82,571)
Net cash provided by (used in) financing activities	(90,259)				(90,259)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(16,321)	(3,025)	11,570		(7,776)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	19,997	11,324	650,558		681,879
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 3,676	\$ 8,299	\$ 662,128	\$	\$ 674,103

Table of Contents**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

Six Months Ended June 30, 2012	Allied World Switzerland (Parent Guarantor)	Allied World Bermuda (Subsidiary Issuer)	Other Allied World Subsidiaries	Consolidating Adjustments	Allied World Switzerland Consolidated
CASH FLOWS PROVIDED BY (USED IN)					
OPERATING ACTIVITIES:	\$ 81,902	\$ 10,326	\$ 207,280	\$	\$ 299,508
CASH FLOWS PROVIDED BY (USED IN)					
INVESTING ACTIVITIES:					
Purchases of available for sale securities					
Purchases of trading securities			(4,005,352)		(4,005,352)
Purchases of other invested assets			(17,778)		(17,778)
Sales of available for sale securities			214,015		214,015
Sales of trading securities			3,959,204		3,959,204
Sales of other invested assets			108,759		108,759
Other			(157,647)		(157,647)
Net cash provided by (used in) investing activities			101,201		101,201
CASH FLOWS PROVIDED BY (USED IN)					
FINANCING ACTIVITIES:					
Partial par value reduction	(28,003)				(28,003)
Proceeds from the exercise of stock options	6,697				6,697
Share repurchases	(148,949)				(148,949)
Repurchase of founder warrants					
Other					
Net cash provided by (used in) financing activities	(170,255)				(170,255)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(88,353)	10,326	308,481		230,454
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	112,672	8,886	512,438		633,996
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 24,319	\$ 19,212	\$ 820,919	\$	\$ 864,450

Notes to Parent Company Condensed Financial Information**a) Dividends**

Allied World Switzerland received cash dividends from its subsidiaries of \$155,000 and \$200,000 for the six months ended June 30, 2013 and 2012, respectively.

14. SUBSEQUENT EVENTS

On July 3, 2013, the Company paid a quarterly dividend of \$0.50 per share to shareholders of record on June 25, 2013.

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Effective July 9, 2013, the Company cancelled 29,240 non-voting shares held in treasury and 1,538,686 shares previously repurchased and constructively retired, following a required filing with the Swiss Commercial Register in Zug.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included elsewhere in this Form 10-Q. References in this Form 10-Q to the terms we, us, our, the company or other similar terms mean the consolidated operations of Allied World Assurance Company Holdings, AG, a Swiss holding company, and our consolidated subsidiaries, unless the context requires otherwise. References in this Form 10-Q to the term Allied World Switzerland or Holdings means only Allied World Assurance Company Holdings, AG. References to Allied World Bermuda mean only Allied World Assurance Company Holdings, Ltd, a Bermuda holding company. References to our insurance subsidiaries may include our reinsurance subsidiaries. References in this Form 10-Q to \$ are to the lawful currency of the United States and to CHF are to the lawful currency of Switzerland. References in this Form 10-Q to Holdings common shares mean its registered voting shares.

Note on Forward-Looking Statement

This Form 10-Q and other publicly available documents may include, and our officers and representatives may from time to time make, projections concerning financial information and statements concerning future economic performance and events, plans and objectives relating to management, operations, products and services, and assumptions underlying these projections and statements. These projections and statements are forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995 and are not historical facts but instead represent only our belief regarding future events, many of which, by their nature, are inherently uncertain and outside our control. These projections and statements may address, among other things, our strategy for growth, product development, financial results and reserves. Actual results and financial condition may differ, possibly materially, from these projections and statements and therefore you should not place undue reliance on them. Factors that could cause our actual results to differ, possibly materially, from those in the specific projections and statements are discussed throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations and in Risk Factors in Item 1A. of Part I of our 2012 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (SEC) on February 26, 2013 (the 2012 Form 10-K). We are under no obligation (and expressly disclaim any such obligation) to update or revise any forward-looking statement that may be made from time to time, whether as a result of new information, future developments or otherwise.

Overview**Our Business**

We write a diversified portfolio of property and casualty insurance and reinsurance internationally through our subsidiaries and branches based in Bermuda, Europe, Hong Kong, Singapore and the United States as well as our Lloyd's Syndicate 2232. We manage our business through three operating segments: U.S. insurance, international insurance and reinsurance. As of June 30, 2013, we had approximately \$12.3 billion of total assets, \$3.4 billion of total shareholders' equity and \$4.2 billion of total capital, which includes shareholders' equity and senior notes.

During the three months ended June 30, 2013, we continued to experience rate increases on property lines that had experienced significant loss activity in the prior year. We also continued to see rate improvement during the quarter on some of our casualty lines of business in certain jurisdictions. We believe that there are opportunities where certain products have attractive premium rates and that the expanded breadth of our operations allows us to target those classes of business.

Our consolidated gross premiums written increased by \$118.3 million, or 18.3%, for the three months ended June 30, 2013 compared to the three months ended June 30, 2012. Our net income decreased by \$98.3 million to a net loss of \$1.9 million compared to the three months ended June 30, 2012. The decrease was due to net realized investment gains (losses) that decreased by \$123.8 million for the three months ended June 30, 2013 compared to the same period in 2012, partially offset by an increase in underwriting income of \$23.1 million.

Our consolidated gross premiums written increased by \$274.5 million, or 20.7%, for the six months ended June 30, 2013 compared to the six months ended June 30, 2012. Our net income decreased by \$157.4 million to \$157.1 million compared to the six months ended June 30, 2012. The decrease was due to net realized investment gains (losses) that decreased by \$177.8 million for the six months ended June 30, 2013 compared to the same period in 2012, partially offset by a \$32.6 million increase in underwriting income.

Table of Contents**Financial Highlights**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(\$ in millions except share, per share and percentage data)			
Gross premiums written	\$ 765.2	\$ 646.9	\$ 1,602.3	\$ 1,327.8
Underwriting income	86.9	63.8	155.6	123.0
Net (loss) income	(1.9)	96.4	157.1	314.5
Operating income	103.5	87.3	187.7	178.8
Basic earnings per share:				
Net (loss) income	\$ (0.05)	\$ 2.66	\$ 4.55	\$ 8.56
Operating income	\$ 3.01	\$ 2.41	\$ 5.44	\$ 4.87
Diluted earnings per share:				
Net (loss) income	\$ (0.05)*	\$ 2.59	\$ 4.45	\$ 8.41
Operating income	\$ 2.95	\$ 2.35	\$ 5.31	\$ 4.78
Weighted average common shares outstanding:				
Basic	34,422,553	36,288,596	34,517,552	36,746,881
Diluted	35,136,296*	37,189,722	35,316,595	37,395,559
Basic book value per common share	\$ 98.70	\$ 91.36	\$ 98.70	\$ 91.36
Diluted book value per common share	\$ 96.18	\$ 88.24	\$ 96.18	\$ 88.24
Annualized return on average equity (ROAE), net (loss) income	(0.2%)	11.8%	9.4%	19.6%
Annualized ROAE, operating income	12.2%	10.7%	11.2%	11.1%

* Diluted weighted average common shares outstanding were only used in the calculation of diluted operating income per share. There were no common share equivalents included in calculating diluted earnings per share as there was a net loss and any additional shares would be anti-dilutive.

Non-GAAP Financial Measures

In presenting the company's results, management has included and discussed certain non-GAAP financial measures, as such term is defined in Item 10(e) of Regulation S-K promulgated by the SEC. Management believes that these non-GAAP measures, which may be defined differently by other companies, better explain the company's results of operations in a manner that allows for a more complete understanding of the underlying trends in the company's business. However, these measures should not be viewed as a substitute for those determined in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Operating income and operating income per share

Operating income is an internal performance measure used in the management of our operations and represents after-tax operational results excluding, as applicable, net realized investment gains or losses, net impairment charges recognized in earnings, net foreign exchange gain or loss, and other non-recurring items. We exclude net realized investment gains or losses, net impairment charges recognized in earnings, net foreign exchange gain or loss and any other non-recurring items from our calculation of operating income because these amounts are heavily influenced by and fluctuate in part according to the availability of market opportunities and other factors. In addition to presenting net income determined in accordance with U.S. GAAP, we believe that showing operating income enables investors, analysts, rating agencies and other users of our financial information to more easily analyze our results of operations and our underlying business performance. Operating income should not be viewed as a substitute for U.S. GAAP net income. The following is a reconciliation of operating income to its most closely related U.S. GAAP measure, net income.

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	Three Months Ended June 30, 2013		Six Months Ended June 30, 2012	
	2013	2012	2013	2012
	(\$ in millions, except share, per share and percentage data)			
Net (loss) income	\$ (1.9)	\$ 96.4	\$ 157.1	\$ 314.5
Add after tax effect of:				
Net realized investment losses (gains)	104.9	(8.1)	27.6	(134.6)
Foreign exchange loss (gain)	0.5	(1.0)	3.0	(1.1)
Operating income	\$ 103.5	\$ 87.3	\$ 187.7	\$ 178.8
Basic per share data:				
Net (loss) income	\$ (0.05)	\$ 2.66	\$ 4.55	\$ 8.56
Add after tax effect of:				
Net realized investment losses (gains)	3.05	(0.22)	0.80	(3.66)
Foreign exchange loss (gain)	0.01	(0.03)	0.09	(0.03)
Operating income	\$ 3.01	\$ 2.41	\$ 5.44	\$ 4.87
Diluted per share data:				
Net (loss) income	\$ (0.05)*	\$ 2.59	\$ 4.45	\$ 8.41
Add after tax effect of:				
Net realized investment losses (gains)	2.99	(0.22)	0.78	(3.60)
Foreign exchange loss (gain)	0.01	(0.02)	0.08	(0.03)
Operating income	\$ 2.95	\$ 2.35	\$ 5.31	\$ 4.78

* Diluted weighted average common shares outstanding were only used in the calculation of diluted operating income per share. There were no common share equivalents included in calculating diluted earnings per share as there was a net loss and any additional shares would be anti-dilutive.

Diluted book value per share

We have included diluted book value per share because it takes into account the effect of dilutive securities; therefore, we believe it is an important measure of calculating shareholder returns.

	As of June 30,	
	2013	2012
	(\$ in millions, except share and per share data)	
Price per share at period end	\$ 91.51	\$ 79.47
Total shareholders equity	\$ 3,373.2	\$ 3,283.9
Basic common shares outstanding	34,175,831	35,942,964
Add:		
Unvested restricted share units	83,730	185,809
Performance based equity awards	270,853	510,530
Employee share purchase plan	10,622	
Dilutive options outstanding	1,111,266	1,365,245
Weighted average exercise price per share	\$ 47.65	\$ 46.04
Deduct:		
Options bought back via treasury method	(578,610)	(790,888)

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Common shares and common share equivalents outstanding	35,073,692	37,213,660
Basic book value per common share	\$ 98.70	\$ 91.36
Diluted book value per common share	\$ 96.18	\$ 88.24

Table of Contents**Annualized return on average equity**

Annualized return on average shareholders' equity (ROAE) is calculated using average shareholders' equity, excluding the average after tax unrealized gains or losses on investments. We present ROAE as a measure that is commonly recognized as a standard of performance by investors, analysts, rating agencies and other users of our financial information.

Annualized operating return on average shareholders' equity is calculated using operating income and average shareholders' equity, excluding the average after tax unrealized gains or losses on investments.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(\$ in millions except percentage data)			
Opening shareholders' equity	\$ 3,432.0	\$ 3,245.8	\$ 3,326.3	\$ 3,149.0
Deduct: accumulated other comprehensive income		(2.3)		(14.5)
Adjusted opening shareholders' equity	\$ 3,432.0	\$ 3,243.5	\$ 3,326.3	\$ 3,134.5
Closing shareholders' equity	\$ 3,373.2	\$ 3,283.9	\$ 3,373.2	\$ 3,283.9
Deduct: accumulated other comprehensive income		(1.4)		(1.4)
Adjusted closing shareholders' equity	\$ 3,373.2	\$ 3,282.5	\$ 3,373.2	\$ 3,282.5
Average shareholders' equity	\$ 3,402.6	\$ 3,263.0	\$ 3,349.8	\$ 3,208.5
Net (loss) income available to shareholders	\$ (1.9)	\$ 96.4	\$ 157.1	\$ 314.5
Annualized return on average shareholders' equity	(0.2%)	11.8%	9.4%	19.6%
Operating income available to shareholders	\$ 103.5	\$ 87.3	\$ 187.7	\$ 178.8
Annualized operating return on average shareholders' equity	12.2%	10.7%	11.2%	11.1%

Relevant Factors**Revenues**

We derive our revenues primarily from premiums on our insurance policies and reinsurance contracts, net of any reinsurance or retrocessional coverage purchased. Insurance and reinsurance premiums are a function of the amounts and types of policies and contracts we write, as well as prevailing market prices. Our prices are determined before our ultimate costs, which may extend far into the future, are known. In addition, our revenues include income generated from our investment portfolio, consisting of net investment income and net realized investment gains or losses. Investment income is principally derived from interest and dividends earned on investments, as well as distributed and undistributed income from equity method investments, partially offset by investment management expenses and fees paid to our custodian bank. Net realized investment gains or losses include gains or losses from the sale of investments, as well as the change in the fair value of investments that we mark-to-market through net income.

Expenses

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

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losses paid, which are actual cash payments to insureds and reinsureds, net of recoveries from reinsurers;

outstanding loss or case reserves, which represent management's best estimate of the likely settlement amount for known claims, less the portion that can be recovered from reinsurers; and

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reserves for losses incurred but not reported, or IBNR, which are reserves (in addition to case reserves) established by us that we believe are needed for the future settlement of claims. The portion recoverable from reinsurers is deducted from the gross estimated loss.

Acquisition costs are comprised of commissions, brokerage fees, insurance taxes and other acquisition related costs such as profit commissions. Commissions and brokerage fees are usually calculated as a percentage of premiums and depend on the market and line of business. Acquisition costs are reported after (1) deducting commissions received on ceded reinsurance, (2) deducting the part of deferred acquisition costs relating to the successful acquisition of new and renewal insurance and reinsurance contracts and (3) including the amortization of previously deferred acquisition costs.

General and administrative expenses include personnel expenses including stock-based compensation expense, rent expense, professional fees, information technology costs and other general operating expenses.

Ratios

Management measures results for each segment on the basis of the loss and loss expense ratio, acquisition cost ratio, general and administrative expense ratio, expense ratio and the combined ratio. Because we do not manage our assets by segment, investment income, interest expense and total assets are not allocated to individual reportable segments. General and administrative expenses are allocated to segments based on various factors, including staff count and each segment's proportional share of gross premiums written. The loss and loss expense ratio is derived by dividing net losses and loss expenses by net premiums earned. The acquisition cost ratio is derived by dividing acquisition costs by net premiums earned. The general and administrative expense ratio is derived by dividing general and administrative expenses by net premiums earned. The expense ratio is the sum of the acquisition cost ratio and the general and administrative expense ratio. The combined ratio is the sum of the loss and loss expense ratio, the acquisition cost ratio and the general and administrative expense ratio.

Critical Accounting Policies

It is important to understand our accounting policies in order to understand our financial position and results of operations. Our unaudited condensed consolidated financial statements reflect determinations that are inherently subjective in nature and require management to make assumptions and best estimates to determine the reported values. If events or other factors cause actual results to differ materially from management's underlying assumptions or estimates, there could be a material adverse effect on our financial condition or results of operations. We believe that some of the more critical judgments in the areas of accounting estimates and assumptions that affect our financial condition and results of operations are related to reserves for losses and loss expenses, reinsurance recoverables, premiums and acquisition costs, valuation of financial instruments and goodwill and other intangible asset impairment valuation. For a detailed discussion of our critical accounting policies, please refer to our 2012 Form 10-K. There were no material changes in the application of our critical accounting estimates subsequent to that report.

Table of Contents**Results of Operations**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
(\$ in millions)				
Revenues				
Gross premiums written	\$ 765.2	\$ 646.9	\$ 1,602.3	\$ 1,327.8
Net premiums written	\$ 581.2	\$ 494.7	\$ 1,276.3	\$ 1,083.7
Net premiums earned	\$ 507.3	\$ 429.7	\$ 970.5	\$ 831.6
Net investment income	37.6	42.5	71.0	89.7
Net realized investment (losses) gains	(115.2)	8.6	(35.6)	142.2
	\$ 429.7	\$ 480.8	\$ 1,005.9	\$ 1,063.5
Expenses				
Net losses and loss expenses	\$ 275.2	\$ 240.4	\$ 530.3	\$ 465.6
Acquisition costs	64.6	51.6	121.3	98.7
General and administrative expenses	80.6	73.9	163.3	144.3
Amortization of intangible assets	0.6	0.6	1.2	1.3
Interest expense	14.2	14.0	28.3	27.7
Foreign exchange loss (gain)	0.4	(1.0)	3.0	(1.1)
	\$ 435.6	\$ 379.5	\$ 847.4	\$ 736.5
(Loss) income before income taxes	(5.9)	101.3	158.5	327.0
Income tax benefit (expense)	(4.0)	4.9	1.4	12.5
Net (loss) income	\$ (1.9)	\$ 96.4	\$ 157.1	\$ 314.5
Ratios				
Loss and loss expense ratio	54.2%	55.9%	54.6%	56.0%
Acquisition cost ratio	12.7%	12.0%	12.5%	11.9%
General and administrative expense ratio	15.9%	17.2%	16.8%	17.3%
Expense ratio	28.6%	29.2%	29.3%	29.2%
Combined ratio	82.8%	85.1%	83.9%	85.2%

Comparison of Three Months Ended June 30, 2013 and 2012**Premiums**

Gross premiums written increased by \$118.3 million, or 18.3%, for the three months ended June 30, 2013 compared to the three months ended June 30, 2012. The overall increase in gross premiums written was primarily the result of the following:

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U.S. insurance: Gross premiums written increased by \$41.3 million, or 15.5%. The increase in gross premiums written was primarily due to new business across existing lines that added \$102.0 million during the quarter combined with premium rate increases in all lines of business and a further \$4.2 million from new lines of business. This growth was partially offset by the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions) and continued competition;

International insurance: Gross premiums written increased by \$9.0 million, or 4.9%. We saw continued growth from new products combined with strong new business writings. This growth was partially offset by the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions) and continued competition; and

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Reinsurance: Gross premiums written increased by \$68.0 million, or 34.5%. The increase was driven by new business, from both new products and new regions, combined with increased participations on renewing business and rate increases for certain lines of business. This was partially offset by the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions) and continued competition.

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

	Three Months Ended June 30,		Dollar Change	Percentage Change
	2013	2012		
	(\$ in millions)			
United States	\$ 440.2	\$ 349.5	\$ 90.7	26.0%
Bermuda	211.0	193.3	17.7	9.2%
Europe	60.3	60.0	0.3	0.5%
Singapore	48.9	40.1	8.8	21.9%
Hong Kong	4.8	4.0	0.8	20.0%
	\$ 765.2	\$ 646.9	\$ 118.3	18.3%

Net premiums written increased by \$86.5 million, or 17.5%, for the three months ended June 30, 2013 compared to the three months ended June 30, 2012. The increase in net premiums written was due to the increase in gross premiums written. The difference between gross and net premiums written is the cost to us of purchasing reinsurance coverage, including the cost of property catastrophe reinsurance coverage. We ceded 24.0% of gross premiums written for the three months ended June 30, 2013 compared to 23.5% for the same period in 2012. We purchased a new property catastrophe coverage for U.S. insurance and international insurance segments that increased ceded premium by \$4.2 million and increased the ceding percentage by 0.5 percentage points.

Net premiums earned increased by \$77.6 million, or 18.1%, for the three months ended June 30, 2013 compared to the three months ended June 30, 2012 as a result of higher net premiums written in 2012 and 2013.

We evaluate our business by segment, distinguishing between U.S. insurance, international insurance and reinsurance. The following table illustrates the mix of our business on both a gross premiums written and net premiums earned basis.

	Gross Premiums Written		Net Premiums Earned	
	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012
U.S. insurance	40.1%	41.1%	39.0%	37.9%
International insurance	25.2%	28.4%	17.1%	19.2%
Reinsurance	34.7%	30.5%	43.9%	42.9%
Total	100.0%	100.0%	100.0%	100.0%

Net Investment Income

Net investment income decreased by \$4.9 million, or 11.5%, for the three months ended June 30, 2013 compared to the three months ended June 30, 2012. The decrease was due to lower yields on our fixed maturity investments caused by reinvesting cash flows from the sale and maturity of fixed maturity investments into lower-yielding fixed maturity investments, as well as an increased allocation to other invested assets that contribute to our total return but carry little or no current yield. The annualized period book yield of the investment portfolio for the three months ended June 30, 2013 and 2012 was 1.8% and 2.1%, respectively.

As of June 30, 2013, we held 9.9% of our total investments and cash equivalents in other invested assets compared to 6.0% as of June 30, 2012.

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Investment management expenses of \$3.8 million and \$4.0 million were incurred during the three months ended June 30, 2013 and 2012, respectively. Investment expenses have decreased as we have renegotiated investment management agreements with our investment advisors, or changed advisors, to manage our expenses.

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As of June 30, 2013, approximately 89.6% of our fixed income investments consisted of investment grade securities. As of June 30, 2013 and December 31, 2012, the average credit rating of our fixed income portfolio was AA- as rated by Standard & Poor's and Aa3 as rated by Moody's.

Realized Investment Gains (Losses)

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

	Three Months Ended June 30,	
	2013	2012
	(\$ in millions)	
Net realized gains (losses) on sale:		
Fixed maturity investments, trading	\$ 7.6	\$ 52.8
Equity securities, trading	6.4	(14.8)
Other invested assets: hedge funds and private equity, trading	9.1	38.0
Total net realized gains on sale	23.1	76.0
Net realized and unrealized gains (losses) on derivatives	8.5	(5.9)
Mark-to-market gains (losses):		
Fixed maturity investments, trading	(115.1)	(24.3)
Equity securities, trading	(34.3)	(0.2)
Other invested assets: hedge funds and private equity, trading	2.6	(37.0)
Total mark-to-market gains	(146.8)	(61.5)
Net realized investment (losses) gains	\$ (115.2)	\$ 8.6

The total return of our investment portfolio was (0.9)% and 0.6% for the three months ended June 30, 2013 and 2012, respectively. The decrease in total return is primarily due to mark-to-market losses on our fixed maturity and equity securities and lower realized gains from the sale of investments. The mark-to-market losses on our fixed maturity securities were caused by higher interest rates combined with widening of credit spreads on our fixed income portfolio during the three months ended June 30, 2013 compared to the same period in 2012. The 10-year U.S. Treasury rate increased by 66 basis points during the current quarter, and the U.S. fixed income market, as measured by the Barclays Aggregate Bond Index, had a return of negative 2.3%; only the second time since the first quarter of 1994 that the index was down more than 2%. The rising interest rate environment also negatively impacted our dividend focused equity portfolio, which underperformed the S&P 500 for the quarter.

Net Losses and Loss Expenses

Net losses and loss expenses increased by \$34.8 million, or 14.5%, for the three months ended June 30, 2013 compared to the three months ended June 30, 2012. The loss and loss expense ratio decreased by 1.7 percentage points for the same period. The increase in net loss and loss expenses was due to growth in net premiums earned, partially offset by higher net favorable prior year reserve development in 2013.

Excluding the prior year reserve development, the loss and loss expense ratios would have been 63.7% and 65.7% for the three months ended June 30, 2013 and 2012, respectively. The decrease in the loss and loss expense ratio of 2.0 points was primarily due to fewer current year reported large losses in the three months ended June 30, 2013 compared to the three months ended June 30, 2012.

We classify catastrophe losses as those losses that result from a major singular event or series of similar events (such as tornadoes) which are assigned a catastrophe loss number by industry data services, where our consolidated losses are expected to be at least \$10 million per loss event or series of similar events and where we believe it is important to our investors' understanding of our operations.

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	Three Months Ended June 30, 2013		Three Months Ended June 30, 2012		Dollar Change	Change in Percentage Points
	Amount	% of NPE ⁽¹⁾	Amount (\$ in millions)	% of NPE ⁽¹⁾		
Non-catastrophe	\$ 323.6	63.7%	\$ 282.3	65.7%	\$ 41.3	(2.0)Pts
Property catastrophe						
Current period	323.6	63.7	282.3	65.7	41.3	(2.0)
Prior period	(48.4)	(9.5)	(41.9)	(9.8)	(6.5)	0.3
Net losses and loss expenses	\$ 275.2	54.2%	\$ 240.4	55.9%	\$ 34.8	(1.7)Pts

(1) NPE means net premiums earned.

We recorded net favorable reserve development related to prior years of \$48.4 million during the three months ended June 30, 2013 compared to net favorable reserve development of \$41.9 million for the three months ended June 30, 2012, as shown in the tables below.

	(Favorable) and Unfavorable Loss Reserve Development by Loss Year										
	For the Three Months Ended June 30, 2013										
	Prior	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
	(\$ in millions)										
U.S. insurance	\$	\$ (0.9)	\$ (1.4)	\$ 0.4	\$ (6.1)	\$ (10.5)	\$ (0.3)	\$ (7.2)	\$ 13.2	\$ 9.9	\$ (2.9)
International insurance	6.4	(5.6)	2.9	(4.9)	(7.5)	(2.8)	(4.2)	(3.0)	(2.1)	(4.9)	(25.7)
Reinsurance	(0.3)	(1.3)	(1.0)	1.3		(3.9)	1.4	0.1	2.6	(18.7)	(19.8)
	\$ 6.1	\$ (7.8)	\$ 0.5	\$ (3.2)	\$ (13.6)	\$ (17.2)	\$ (3.1)	\$ (10.1)	\$ 13.7	\$ (13.7)	\$ (48.4)

The unfavorable reserve development for the 2011 and 2012 loss years for our U.S. insurance segment was due to higher than expected loss emergence, primarily in our private/not for profit directors and officers (D&O) and healthcare products. The healthcare emergence was largely driven by one large claim and loss emergence in medical malpractice products due to higher than expected loss frequency. The emergence in the private/not for profit D&O is due to higher than expected loss frequency. In response to what we have seen in these lines, we continue to take rate action, as well as make changes to terms and conditions, resulting in flat premium and reduced exposures.

The additions to the 2011 and 2012 loss years noted above are consistent with our practice of addressing unfavorable loss emergence early in our casualty lines of business. We tend to recognize favorable loss emergence more slowly in our casualty lines once actual loss emergence and data provides greater confidence around the adequacy of ultimate estimates.

The favorable reserve development for the 2012 loss year for our reinsurance segment was due to lower than expected reported losses in our property reinsurance line of business.

The following table shows the net favorable reserve development by loss year for each of our segments for the three months ended June 30, 2012.

	(Favorable) and Unfavorable Loss Reserve Development by Loss Year									
	For the Three Months Ended June 30, 2012									
	Prior	2004	2005	2006	2007	2008	2009	2010	2011	Total
	(\$ in millions)									
U.S. insurance	\$ (0.4)	\$ (1.5)	\$ (0.2)	\$ (3.9)	\$ (9.3)	\$ 0.8	\$ (2.7)	\$ 4.5	\$ 6.5	\$ (6.2)

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International insurance	6.2	(3.3)	(7.5)	(11.4)	(7.5)	(3.1)	(1.2)		(1.3)	(29.1)
Reinsurance	1.2	(1.7)	(0.3)	(4.8)	(5.3)	(0.7)	1.0	(5.8)	9.8	(6.6)
	\$ 7.0	\$ (6.5)	\$ (8.0)	\$ (20.1)	\$ (22.1)	\$ (3.0)	\$ (2.9)	\$ (1.3)	\$ 15.0	\$ (41.9)

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The net favorable reserve development is a result of actual loss emergence being lower than anticipated. The unfavorable reserve development in our U.S. insurance segment for the 2010 and 2011 loss years was due to adverse development on a terminated program and certain errors and omissions products. The unfavorable reserve development in our reinsurance segment for the 2011 loss year was due to increased property losses and casualty non-standard auto risks.

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

	Three Months Ended June 30,		Dollar Change
	2013	2012 (\$ in millions)	
Net losses paid	\$ 262.9	\$ 205.2	\$ 57.7
Net change in reported case reserves	(18.2)	14.0	(32.2)
Net change in IBNR	30.5	21.2	9.3
Net losses and loss expenses	\$ 275.2	\$ 240.4	\$ 34.8

The table below is a reconciliation of the beginning and ending reserves for losses and loss expenses. Losses incurred and paid are reflected net of reinsurance recoverables.

	Three Months Ended June 30,	
	2013 (\$ in millions)	2012 (\$ in millions)
Net reserves for losses and loss expenses, April 1	\$ 4,509.7	\$ 4,274.6
Incurred related to:		
Current period non-catastrophe	323.6	282.3
Prior period	(48.4)	(41.9)
Total incurred	275.2	240.4
Paid related to:		
Current period non-catastrophe	21.0	18.2
Prior period	241.9	187.0
Total paid	262.9	205.2
Foreign exchange revaluation	(4.7)	(5.9)
Net reserve for losses and loss expenses, June 30	4,517.3	4,303.9
Losses and loss expenses recoverable	1,179.6	1,073.6
Reserve for losses and loss expenses, June 30	\$ 5,696.9	\$ 5,377.5

Acquisition Costs

Acquisition costs increased by \$13.0 million, or 25.2%, for the three months ended June 30, 2013 compared to the three months ended June 30, 2012. The increase in acquisition costs was consistent with the growth in premiums. Acquisition costs as a percentage of net premiums earned were 12.7% for the three months ended June 30, 2013 compared to 12.0% for the same period in 2012. The increase was due to a higher acquisition cost ratio for our U.S. insurance segment as a result of a \$2.5 million increase in estimated profit commissions related to program business which increased the acquisition cost ratio by 0.5 percentage points.

General and Administrative Expenses

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General and administrative expenses increased by \$6.7 million, or 9.1%, for the three months ended June 30, 2013 compared to the same period in 2012. Our general and administrative expense ratio was 15.9% and 17.2% for the three months ended June 30, 2013 and 2012, respectively. The increase in general and administrative expenses was primarily due to increased salary and related costs as average headcount increased by 17% to support our continued growth. This was partially offset by lower stock-based compensation expense. We have granted cash equivalent restricted stock units and performance-based equity awards to certain key employees, and we measure the value of each award at the period ending share price. Changes in our share price are recognized as increases or decreases in our compensation expense ratably over the service period. Our share price decreased 1% for the three months ended June 30, 2013, compared to the 16% increase for the same period in 2012.

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Amortization of Intangible Assets

The amortization of intangible assets was unchanged for the three months ended June 30, 2013 compared to the three months ended June 30, 2012.

Interest Expense

Interest expense increased by \$0.2 million, or 1.4%, for the three months ended June 30, 2013 compared to the three months ended June 30, 2012.

Net (Loss) Income

Net loss for the three months ended June 30, 2013 was \$1.9 million compared to net income of \$96.4 million for the three months ended June 30, 2012. The \$98.3 million decrease was primarily the result of the \$123.8 million decrease in realized investment gains for the three months ended June 30, 2013 compared to the same period in 2012. This was partially offset by an increase in underwriting income of \$23.1 million.

Comparison of Six Months Ended June 30, 2013 and 2012

Premiums

Gross premiums written increased by \$274.5 million, or 20.7%, for the six months ended June 30, 2013 compared to the six months ended June 30, 2012. The overall increase in gross premiums written was primarily the result of the following:

U.S. insurance: Gross premiums written increased by \$93.1 million, or 19.8%. The increase in gross premiums written was primarily due to new business across existing lines that added \$193.8 million, combined with premium rate increases in all lines of business. Growth from new lines of business introduced in 2013, such as primary construction and surety, contributed a further \$8.2 million for the period. This growth was partially offset by the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions) and continued competition;

International insurance: Gross premiums written increased by \$23.9 million, or 8.0%, primarily as a result of increased premiums from new initiatives, such as trade credit, retail property and small- to medium-sized enterprise (SME) insurance products, combined growth in existing lines of business and premium rate increases in select lines of business. This growth was partially offset by non-recurring business, the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions) and continued competition; and

Reinsurance: Gross premiums written increased by \$157.5 million, or 28.1%. The increase in gross premiums written was primarily due to new business, both from new products and new regions, as well as increased participations on renewing business combined with premium rate increases. This growth was partially offset by the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions) and continued competition.

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

	Six Months Ended June 30,		Dollar Change	Percentage Change
	2013	2012 (\$ in millions)		
United States	\$ 918.6	\$ 738.5	\$ 180.1	24.4%
Bermuda	439.7	375.4	64.3	17.1%
Europe	146.8	135.4	11.4	8.4%
Singapore	87.0	69.3	17.7	25.5%
Hong Kong	10.2	9.2	1.0	10.9%
	\$ 1,602.3	\$ 1,327.8	\$ 274.5	20.7%

Net premiums written increased by \$192.6 million, or 17.8%, for the six months ended June 30, 2013 compared to the six months ended June 30, 2012. The increase in net premiums written was due to the increase in gross premiums written. The difference between gross and net premiums written is the cost to us of purchasing reinsurance coverage, including the cost of property catastrophe reinsurance coverage. We ceded 20.3% of gross premiums written for the six months ended June 30, 2013 compared to 18.4% for the same period in 2012. The increase was primarily due to our purchase of a new collateralized retrocessional catastrophe cover in our reinsurance segment and a new property catastrophe coverage for U.S. insurance and international insurance segments. Both of these reinsurance coverages increased the ceded percentage by 2.0 percentage points.

Net premiums earned increased by \$138.9 million, or 16.7%, for the six months ended June 30, 2013 compared to the six months ended June 30, 2012 as a result of higher net premiums written in 2012 and 2013.

We evaluate our business by segment, distinguishing between U.S. insurance, international insurance and reinsurance. The following table illustrates the mix of our business on both a gross premiums written and net premiums earned basis.

	Gross Premiums Written		Net Premiums Earned	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
U.S. insurance	35.2%	35.4%	39.8%	38.1%
International insurance	20.0%	22.4%	17.6%	19.5%
Reinsurance	44.8%	42.2%	42.6%	42.4%
Total	100.0%	100.0%	100.0%	100.0%

Net Investment Income

Net investment income decreased by \$18.7 million, or 20.8%, for the six months ended June 30, 2013 compared to the six months ended June 30, 2012. The decrease was due to lower yields on our fixed maturity investments caused by reinvesting cash flows from the sale and maturity of fixed maturity securities into lower-yielding fixed maturity securities, as well as an increased allocation to other invested assets, which contribute to our total return but carry little or no current yield. The annualized period book yield of the investment portfolio for the six months ended June 30, 2013 and 2012 was 1.7% and 2.2%, respectively.

Investment management expenses of \$8.1 million and \$8.3 million were incurred during the six months ended June 30, 2013 and 2012, respectively. Investment expenses have decreased as we have renegotiated investment management agreements with our investment advisors, or changed advisors, to manage our expenses.

Table of Contents**Realized Investment Gains (Losses)**

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

	Six Months Ended June 30,	
	2013	2012
	(\$ in millions)	
Net realized gains (losses) on sale:		
Fixed maturity investments, trading	\$ 29.5	\$ 64.5
Equity securities, trading	16.2	(1.0)
Other invested assets: hedge funds and private equity, trading	14.7	(8.2)
Total net realized gains on sale	60.4	55.3
Net realized and unrealized gains on derivatives	7.6	0.8
Mark-to-market gains (losses):		
Fixed maturity investments, trading	(131.6)	44.2
Equity securities, trading	(1.4)	19.6
Other invested assets: hedge funds and private equity, trading	29.4	22.3
Total mark-to-market gains	(103.6)	86.1
Net realized investment (losses) gains	\$ (35.6)	\$ 142.2

The total return of our investment portfolio was 0.4% and 2.6% for the six months ended June 30, 2013 and 2012, respectively. The decrease in total return is primarily due to mark-to-market losses on our fixed maturity investments and equity securities, partially offset by higher realized gains on the sale of investments. The mark-to-market losses on our fixed maturity investments were caused by higher interest rates combined with widening credit spreads on our fixed income portfolio. During the period, the yield on the 10-year U.S. treasury increased by 66 basis points, which contributed to the higher interest rates. The rising interest rate environment also negatively impacted our dividend focused equity portfolio, which underperformed the S&P 500 for the period.

Net Losses and Loss Expenses

Net losses and loss expenses increased by \$64.7 million, or 13.9%, for the six months ended June 30, 2013 compared to the six months ended June 30, 2012. The loss and loss expense ratio decreased by 1.4 percentage points for the same period. The increase in net loss and loss expenses was due to the growth in net premiums earned, partially offset by higher net favorable prior year reserve development.

Excluding the prior year reserve development the loss and loss expense ratios would have been 64.1% and 65.8% for the six months ended June 30, 2013 and 2012, respectively. The decrease in the loss and loss expense ratio of 1.7 points was primarily due to fewer reported current year large losses in the six months ended June 30, 2013 compared to the same period in 2012.

	Six Months Ended June 30, 2013		Six Months Ended June 30, 2012		Dollar Change	Change in Percentage Points
	Amount	% of NPE	Amount	% of NPE		
	(\$ in millions)					
Non-catastrophe	\$ 622.8	64.1%	\$ 547.0	65.8%	\$ 75.8	(1.7)Pts
Property catastrophe						

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Current period	622.8	64.1	547.0	65.8	75.8	(1.7)
Prior period	(92.5)	(9.5)	(81.4)	(9.8)	(11.1)	0.3
Net losses and loss expenses	\$ 530.3	54.6%	\$ 465.6	56.0%	\$ 64.7	(1.4)Pts

We recorded net favorable reserve development related to prior years of \$92.5 million during the six months ended June 30, 2013 compared to net favorable reserve development of \$81.4 million for the six months ended June 30, 2012, as shown in the tables below.

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	(Favorable) and Unfavorable Loss Reserve Development by Loss Year										
	For the Six Months Ended June 30, 2013										
	Prior	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
	(\$ in millions)										
U.S. insurance	\$ (0.1)	\$ (2.1)	\$ (3.5)	\$ (1.1)	\$ (13.0)	\$ (14.2)	\$ (3.0)	\$ (7.3)	\$ 17.7	\$ 34.2	\$ 7.6
International insurance	5.9	(2.9)	(4.3)	(10.9)	(10.3)	(9.9)	(0.6)	(5.5)	(9.7)	(7.2)	(55.4)
Reinsurance	0.2	(1.4)	(3.1)	1.1	(2.2)	(6.9)	0.4	(2.1)	(2.9)	(27.8)	(44.7)
	\$ 6.0	\$ (6.4)	\$ (10.9)	\$ (10.9)	\$ (25.5)	\$ (31.0)	\$ (3.2)	\$ (14.9)	\$ 5.1	\$ (0.8)	\$ (92.5)

The unfavorable reserve development for the 2011 and 2012 loss years for our U.S. insurance segment was due to higher than expected loss emergence, primarily in our private/not for profit D&O, healthcare and E&O products. The healthcare emergence was largely driven by three large claims, each in excess of \$3 million. The emergence in the E&O and private/not for profit D&O is due to higher than expected loss frequency. In response to what we have seen in these lines, we continue to take rate action, as well as make changes to terms and conditions, resulting in flat premium and reduced exposures.

The additions to the 2011 and 2012 loss years noted above are consistent with our practice of addressing unfavorable loss emergence early in our casualty lines of business. We tend to recognize favorable loss emergence more slowly in our casualty lines once actual loss emergence and data provides greater confidence around the adequacy of ultimate estimates.

The favorable reserve development for the 2012 loss year for our reinsurance segment was due to lower than expected reported losses in our property reinsurance line of business.

The following table shows the net favorable reserve development by loss year for each of our segments for the six months ended June 30, 2012.

	(Favorable) and Unfavorable Loss Reserve Development by Loss Year										
	For the Six Months Ended June 30, 2012										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total	
	(\$ in millions)										
U.S. insurance	\$ (0.1)	\$ (1.2)	\$ (3.8)	\$ (10.4)	\$ (18.4)	\$ 1.1	\$ (5.3)	\$ 9.3	\$ 15.4	\$ (13.4)	
International insurance	3.3	(5.8)	(10.5)	(28.3)	(17.4)	(5.4)	(1.8)	(6.6)	23.1	(49.4)	
Reinsurance	0.8	(0.8)	(7.6)	(7.0)	(11.5)	(1.6)	1.9	(1.3)	8.5	(18.6)	
	\$ 4.0	\$ (7.8)	\$ (21.9)	\$ (45.7)	\$ (47.3)	\$ (5.9)	\$ (5.2)	\$ 1.4	\$ 47.0	\$ (81.4)	

The net favorable reserve development is a result of actual loss emergence being lower than anticipated. The unfavorable reserve development in our U.S. insurance segment for the 2010 and 2011 loss years was due to adverse development on a terminated program and certain errors and omissions products. The unfavorable reserve development in our international insurance segment for the 2011 loss year was due to adverse development on an individual general casualty claim, estimated to reach our full limit of \$20.0 million, net of reinsurance. The unfavorable reserve development in our reinsurance segment for the 2011 loss year was due to increased property catastrophe losses.

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

	Six Months Ended		Dollar Change
	2013	June 30, 2012	
	(\$ in millions)		
Net losses paid	\$ 507.5	\$ 382.3	\$ 125.2
Net change in reported case reserves	(9.2)	47.0	(56.2)
Net change in IBNR	32.0	36.3	(4.3)
Net losses and loss expenses	\$ 530.3	\$ 465.6	\$ 64.7

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The table below is a reconciliation of the beginning and ending reserves for losses and loss expenses. Losses incurred and paid are reflected net of reinsurance recoverables

	Six Months Ended June 30,	
	2013	2012
	(\$ in millions)	
Net reserves for losses and loss expenses, January 1	\$ 4,504.4	\$ 4,222.2
Incurring related to:		
Current period non-catastrophe	622.8	547.0
Prior period	(92.5)	(81.4)
Total incurred	530.3	465.6
Paid related to:		
Current period non-catastrophe	24.4	19.8
Prior period	483.0	362.5
Total paid	507.4	382.3
Foreign exchange revaluation	(9.9)	(1.6)
Net reserve for losses and loss expenses, June 30	4,517.4	4,303.9
Losses and loss expenses recoverable	1,179.6	1,073.6
Reserve for losses and loss expenses, June 30	\$ 5,697.0	\$ 5,377.5

Acquisition Costs

Acquisition costs increased by \$22.6 million, or 22.9%, for the six months ended June 30, 2013 compared to the six months ended June 30, 2012. The increase in acquisition costs was consistent with the growth in premiums. Acquisition costs as a percentage of net premiums earned were 12.5% for the six months ended June 30, 2013 compared to 11.9% for the same period in 2012. The increase was due to a \$5.0 million increase in estimated profit commissions related to our U.S. insurance and reinsurance segments which increased the acquisition cost ratio by 0.5 percentage points.

General and Administrative Expenses

General and administrative expenses increased by \$19.0 million, or 13.2%, for the six months ended June 30, 2013 compared to the same period in June 30, 2012. The increase in general and administrative expenses was primarily due to increased salary and related costs as average headcount increased by 17% during the six months ended June 30, 2013 compared to the same period in 2012.

Our general and administrative expense ratio was 16.8% for the six months ended June 30, 2013 compared to 17.3% for the six months ended June 30, 2012. The decrease was due to the growth in net premiums earned being greater than the increase in expenses.

Amortization of Intangible Assets

The amortization of intangible assets was unchanged for the six months ended June 30, 2013 compared to the six months ended June 30, 2012.

Interest Expense

Interest expense increased by \$0.6 million, or 2.2%, for the six months ended June 30, 2013 compared to the six months ended June 30, 2012.

Net Income

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Net income for the six months ended June 30, 2013 was \$157.1 million compared to \$314.5 million for the six months ended June 30, 2012. The \$157.4 million decrease was primarily the result of the \$177.8 million decrease in realized investment gains for the six months ended June 30, 2013 compared to the same period in 2012, partially offset by the \$32.6 million increase in underwriting income.

Table of Contents**Underwriting Results by Operating Segments**

Our company is organized into three operating segments:

U.S. Insurance Segment. The U.S. insurance segment includes our direct specialty insurance operations in the United States. This segment provides both direct property and specialty casualty insurance primarily to non-Fortune 1000 North American domiciled accounts.

International Insurance Segment. The international insurance segment includes our direct insurance operations in Bermuda, Europe, Singapore and Hong Kong. This segment provides both direct property and casualty insurance primarily to Fortune 1000 North American domiciled accounts from our Bermuda office and direct property and specialty casualty to our non-North American domiciled accounts from our European, Singapore and Hong Kong offices.

Reinsurance Segment. Our reinsurance segment has operations in Bermuda, Europe, Singapore and the United States. This segment includes the reinsurance of property, general casualty, professional liability, specialty lines and property catastrophe coverages written by insurance companies. We presently write reinsurance on both a treaty and a facultative basis, targeting several niche reinsurance markets.

U.S. Insurance Segment

The following table summarizes the underwriting results and associated ratios for the U.S. insurance segment for each of the periods indicated.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
	(\$ in millions)			
Revenues				
Gross premiums written	\$ 307.3	\$ 266.0	\$ 563.3	\$ 470.2
Net premiums written	221.4	196.7	413.7	350.5
Net premiums earned	197.5	162.8	385.9	316.1
Expenses				
Net losses and loss expenses	\$ 124.4	\$ 103.1	\$ 257.7	\$ 200.8
Acquisition costs	27.3	21.3	50.4	41.2
General and administrative expenses	38.3	34.7	77.9	65.8
Underwriting income (loss)	7.5	3.7	(0.1)	8.3
Ratios				
Loss and loss expense ratio	63.0%	63.3%	66.8%	63.5%
Acquisition cost ratio	13.8%	13.1%	13.1%	13.0%
General and administrative expense ratio	19.4%	21.3%	20.2%	20.8%
Expense ratio	33.2%	34.4%	33.3%	33.8%
Combined ratio	96.2%	97.7%	100.1%	97.3%

Comparison of Three Months Ended June 30, 2013 and 2012

Premiums. Gross premiums written increased by \$41.3 million, or 15.5%, for the three months ended June 30, 2013 compared to the same period in 2012. The increase in gross premiums written was primarily due to new business across existing lines that added \$102.0 million during the quarter combined with premium rate increases in all lines of business. The increase in new business for the quarter was primarily driven by our general casualty, programs, where we added four new programs, and inland marine lines of business. Our new lines of business, primary construction and surety, contributed a further \$4.2 million in new business. This growth was partially offset by the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions) and continued competition.

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

	Three Months Ended June 30,		Dollar	Percentage
	2013	2012 (\$ in millions)	Change	Change
General casualty	\$ 97.4	\$ 78.3	\$ 19.1	24.4%
Professional liability	64.4	66.7	(2.3)	(3.4%)
Healthcare	46.5	46.3	0.2	0.4%
General property	35.6	37.1	(1.5)	(4.0%)
Programs	33.7	25.6	8.1	31.6%
Other*	29.7	12.0	17.7	147.5%
	\$ 307.3	\$ 266.0	\$ 41.3	15.5%

* Includes our inland marine, environmental, primary construction, mergers and acquisitions and surety lines of business. Net premiums written increased by \$24.7 million, or 12.6%, for the three months ended June 30, 2013 compared to the three months ended June 30, 2012. The increase in net premiums written was primarily due to higher gross premiums written. We ceded 28.0% of gross premiums written for the three months ended June 30, 2013 compared to 26.1% for the same period in 2012. The increase was primarily due to the purchase of new reinsurance in our program line of business, and a new property catastrophe coverage.

Net premiums earned increased by \$34.7 million, or 21.3%, for the three months ended June 30, 2013 compared to the same period in 2012. The increase was primarily due to the growth of our U.S. insurance operations during 2012 and 2013.

Net losses and loss expenses. Net losses and loss expenses increased by \$21.3 million, or 20.7%, for the three months ended June 30, 2013 compared to the three months ended June 30, 2012. The loss and loss expense ratio decreased by 0.3 percentage points for the same period. The increase in net losses and loss expenses was mostly due to growth in the U.S. insurance segment, combined with lower favorable prior year reserve development in the current period compared to prior year.

Excluding the prior year reserve development, the loss and loss expense ratios would have been 64.5% and 67.1% for the three months ended June 30, 2013 and 2012, respectively. The decrease in the loss and loss expense ratio of 2.6 points was due to the absence of any reported large losses in the three months ended June 30, 2013 compared to the three months ended June 30, 2012, which had a large property loss of \$6.5 million.

	Three Months Ended June 30, 2013		Three Months Ended June 30, 2012		Dollar	Change in Percentage Points
	Amount	% of NPE	Amount	% of NPE	Change	
	(\$ in millions)					
Non-catastrophe	\$ 127.3	64.5%	\$ 109.3	67.1%	\$ 18.0	(2.6)Pts
Property catastrophe						
Current period	127.3	64.5	109.3	67.1	18.0	(2.6)
Prior period	(2.9)	(1.5)	(6.2)	(3.8)	3.3	2.3
Net losses and loss expenses	\$ 124.4	63.0%	\$ 103.1	63.3%	\$ 21.3	(0.3)Pts

Overall, our U.S. insurance segment recorded net favorable reserve development of \$2.9 million during the three months ended June 30, 2013 compared to net favorable reserve development of \$6.2 million for the three months ended June 30, 2012, as shown in the tables below.

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	(Favorable) and Unfavorable Loss Reserve Development by Loss Year										
	For the Three Months Ended June 30, 2013										
	Prior	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
	(\$ in millions)										
General casualty Programs	\$	\$ (0.3)	\$ (0.2)	\$	\$ (1.2)	\$ (1.4)	\$ 0.3	\$	\$ 0.8	\$ 0.5	\$ (1.5)
General property		0.1		0.3	(0.2)	(1.3)	0.1	(2.5)	1.6		(1.9)
Healthcare		(0.7)	(0.7)	(1.7)	(1.5)	(3.6)	(1.3)	(1.0)	10.1	2.2	1.8
Professional liability			(0.5)	3.2	(1.5)	(4.3)	0.7	(1.8)	1.3	5.0	2.1
Other								(0.1)	(0.4)	0.8	0.3
	\$	\$ (0.9)	\$ (1.4)	\$ 0.4	\$ (6.1)	\$ (10.5)	\$ (0.3)	\$ (7.2)	\$ 13.2	\$ 9.9	\$ (2.9)

The unfavorable reserve development for the 2011 and 2012 loss years was due to higher than expected loss emergence, primarily in our private/not for profit D&O and healthcare products. The healthcare emergence was largely driven by one large claim and loss emergence in medical malpractice products. The emergence in the private/not for profit D&O is due to higher than expected loss frequency. In response to what we have seen in these lines, we continue to take rate action, as well as make changes to terms and conditions, resulting in flat premium and reduced exposures.

The additions to the 2011 and 2012 loss years noted above are consistent with our practice of addressing unfavorable loss emergence early in our casualty lines of business. We tend to recognize favorable loss emergence more slowly in our casualty lines once actual loss emergence and data provides greater confidence around the adequacy of ultimate estimates.

	(Favorable) and Unfavorable Loss Reserve Development by Loss Year										
	For the Three Months Ended June 30, 2012										
	Prior	2004	2005	2006	2007	2008	2009	2010	2011	Total	
	(\$ in millions)										
General casualty Programs	\$ (0.2)	\$ (0.3)	\$ (0.3)	\$ (3.7)	\$ (0.1)	\$ (1.2)	\$ (0.4)	\$ (0.1)	\$	\$ (6.3)	
General property		0.4	(0.1)	(0.1)	(0.1)	0.3	(0.1)	(0.1)	3.8	2.6	6.1
Healthcare	(0.2)	(1.6)	0.4	(0.3)	(0.8)	1.1	(1.2)	0.1	0.5	(2.0)	
Professional liability			(0.2)	0.2	(8.3)	0.6	(1.0)	0.8	4.1	(3.8)	
Other									(0.7)	(0.7)	
	\$ (0.4)	\$ (1.5)	\$ (0.2)	\$ (3.9)	\$ (9.3)	\$ 0.8	\$ (2.7)	\$ 4.5	\$ 6.5	\$ (6.2)	

The unfavorable reserve development for the 2010 and 2011 loss years was due to adverse development on a program that commenced writing in 2008 and was terminated during 2011, and certain errors and omissions products.

Acquisition costs. Acquisition costs increased by \$6.0 million, or 28.2%, for the three months ended June 30, 2013 compared to the three months ended June 30, 2012. The increase was driven by the growth in premiums, as well as \$2.5 million estimated profit commission for one of our programs due to positive underwriting results. The acquisition cost ratio was 13.8% and 13.1% for the three months ended June 30, 2013 and 2012, respectively. The increase in the acquisition cost ratio was primarily due to the estimated profit commission.

General and administrative expenses. General and administrative expenses increased by \$3.6 million, or 10.4%, for the three months ended June 30, 2013 compared to the three months ended June 30, 2012. The increase was due to the continued growth of the U.S. insurance operations as we continue to increase our headcount. The general and administrative ratio decreased to 19.4% for the three months ended June 30, 2013 from 21.3% for the same period in 2012, reflecting the higher growth in net premiums earned relative to expenses in 2013.

Table of Contents**Comparison of Six Months Ended June 30, 2013 and 2012**

Premiums. Gross premiums written increased by \$93.1 million, or 19.8%, for the six months ended June 30, 2013 compared to the same period in 2012. The increase in gross premiums written was primarily due to new business across existing lines that added \$193.8 million during the six months ended June 30, 2013, combined with premium rate increases in all lines of business. Growth from new products introduced in 2013, such as primary construction and surety, contributed a further \$8.2 million for the period. This growth was partially offset by the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions) and continued competition.

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

	Six Months Ended June 30,		Dollar Change	Percentage Change
	2013	2012 (\$ in millions)		
General casualty	\$ 164.3	\$ 126.7	\$ 37.6	29.7%
Professional liability	127.5	125.9	1.6	1.3%
Healthcare	100.0	93.3	6.7	7.2%
Programs	66.6	48.9	17.7	36.2%
General property	55.3	55.6	(0.3)	(0.5%)
Other*	49.6	19.8	29.8	150.5%
	\$ 563.3	\$ 470.2	\$ 93.1	19.8%

* Includes our inland marine, environmental, primary construction, mergers and acquisitions and surety lines of business
Net premiums written increased by \$63.2 million, or 18.0%, for the six months ended June 30, 2013 compared to the six months ended June 30, 2012. The increase in net premiums written was primarily due to higher gross premiums written. We ceded 26.6% of gross premiums written for the six months ended June 30, 2013 compared to 25.5% for the same period in 2012. The increase in the ceded written percentage is primarily due to the purchase of new reinsurance in our program line of business, and a new property catastrophe coverage.

Net premiums earned increased by \$69.8 million, or 22.1%, for the six months ended June 30, 2013 compared to the same period in 2012. The increase was primarily due to the growth of our U.S. insurance operations during 2013 and 2012.

Net losses and loss expenses. Net losses and loss expenses increased by \$56.9 million, or 28.3%, for the six months ended June 30, 2013 compared to the six months ended June 30, 2012. The loss and loss expense ratio increased by 3.3 percentage points for the same period. The increase in net losses and loss expenses was primarily due to growth in the U.S. insurance segment and unfavorable prior year reserve development in 2013 compared to favorable prior year reserve development in 2012.

Excluding the prior year reserve development, the loss and loss expense ratios would have been 64.8% and 67.7% for the six months ended June 30, 2013 and 2012, respectively. The decrease in the loss and loss expense ratio of 2.9 points was primarily due to fewer reported current year large losses in the six months ended June 30, 2013 compared to the same period in 2012.

	Six Months Ended June 30, 2013		Six Months Ended June 30, 2012		Dollar Change	Change in Percentage Points
	Amount	% of NPE	Amount (\$ in millions)	% of NPE		
Non-catastrophe	\$ 250.1	64.8%	\$ 214.2	67.7%	\$ 35.9	(2.9)Pts
Property catastrophe						

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Current period	250.1	64.8	214.2	67.7	35.9	(2.9)
Prior period	7.6	2.0	(13.4)	(4.2)	21.0	6.2
Net losses and loss expenses	\$ 257.7	66.8%	\$ 200.8	63.5%	\$ 56.9	3.3 Pts

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Overall, our U.S. insurance segment recorded net unfavorable reserve development of \$7.6 million during the six months ended June 30, 2013 compared to net favorable reserve development of \$13.4 million for the six months ended June 30, 2012, as shown in the tables below.

(Favorable) and Unfavorable Loss Reserve Development by Loss Year											
For the Six Months Ended June 30, 2013											
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
(\$ in millions)											
General casualty Programs	\$	\$ (0.7)	\$ (0.5)	\$	\$ (4.5)	\$ (3.1)	\$ 0.1	\$	\$ 2.0	\$ 0.5	\$ (6.2)
General property		0.1		(1.4)	(3.3)	0.2	(0.7)	(2.7)	(0.6)	2.8	(5.7)
Healthcare	(0.1)	(1.0)	(1.6)	(2.7)	(2.3)	(6.2)	(1.2)	(1.6)	13.1	9.0	5.4
Professional liability		(0.5)	(1.4)	2.7	(2.7)	(3.8)	0.1	(2.7)	2.1	18.3	12.1
Other								(0.1)	(0.4)	1.6	1.1
	\$ (0.1)	\$ (2.1)	\$ (3.5)	\$ (1.1)	\$ (13.0)	\$ (14.2)	\$ (3.0)	\$ (7.3)	\$ 17.7	\$ 34.2	\$ 7.6

The unfavorable reserve development for the 2011 and 2012 loss years was due to higher than expected loss emergence, primarily in our private/not for profit D&O, healthcare D&O and E&O products. The healthcare D&O emergence was largely driven by three large claims, each in excess of \$3 million. The emergence in the E&O and private/not for profit D&O is due to higher than expected loss frequency. In response to what we have seen in these lines, we continue to take rate action, as well as make changes to terms and conditions, resulting in flat premium and reduced exposures.

The additions to the 2011 and 2012 loss years noted above are consistent with our practice of addressing unfavorable loss emergence early in our casualty lines of business. We tend to recognize favorable loss emergence more slowly in our casualty lines once actual loss emergence and data provides greater confidence around the adequacy of ultimate estimates.

(Favorable) and Unfavorable Loss Reserve Development by Loss Year											
For the Six Months Ended June 30, 2012											
	Prior	2004	2005	2006	2007	2008	2009	2010	2011	Total	
(\$ in millions)											
General casualty Programs	\$ (0.4)	\$ 0.9	\$ (0.6)	\$ (8.1)	\$ (0.1)	\$ (1.0)	\$ (0.4)	\$ (0.1)	\$	\$ (9.8)	
General property		0.7	(0.3)	(0.1)	(0.2)	(0.6)		7.3	3.8	10.2	
Healthcare	0.3	(2.7)	(2.6)	(2.3)	(2.8)	1.1	(1.7)	3.5	0.5	(6.7)	
Professional liability		(0.1)	(0.3)	0.1	(15.1)	(0.1)	(2.8)	(0.9)	10.2	(9.0)	
Other									(0.2)	(0.2)	
	\$ (0.1)	\$ (1.2)	\$ (3.8)	\$ (10.4)	\$ (18.4)	\$ 1.1	\$ (5.3)	\$ 9.3	\$ 15.4	\$ (13.4)	

The unfavorable reserve development for the 2010 and 2011 loss years was primarily due to adverse development on a program that commenced writing in 2008 and was terminated during 2011, and certain errors and omissions products.

Acquisition costs. Acquisition costs increased by \$9.2 million, or 22.3%, for the six months ended June 30, 2013 compared to the six months ended June 30, 2012. The increase was consistent with the growth in premiums. The acquisition cost ratio increased slightly to 13.1% for the six months ended June 30, 2013 from 13.0% for the same period in 2012.

General and administrative expenses. General and administrative expenses increased by \$12.1 million, or 18.4%, for the six months ended June 30, 2013 compared to the six months ended June 30, 2012, due to the continued growth of our U.S. insurance operations. The general and administrative expense ratio decreased slightly to 20.2% for the six months ended June 30, 2013 from 20.8% in the same period in 2012 as a result of our increased net premiums earned.

Table of Contents**International Insurance Segment**

The following table summarizes the underwriting results and associated ratios for the international insurance segment for each of the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(\$ in millions)			
Revenues				
Gross premiums written	\$ 192.6	\$ 183.6	\$ 321.1	\$ 297.2
Net premiums written	106.4	111.3	184.1	184.0
Net premiums earned	87.0	82.6	171.2	162.5
Expenses				
Net losses and loss expenses	\$ 31.0	\$ 22.2	\$ 59.9	\$ 60.3
Acquisition costs	(0.4)	(0.6)	(1.2)	(1.1)
General and administrative expenses	24.1	21.7	48.9	44.0
Underwriting income	32.3	39.3	63.6	59.3
Ratios				
Loss and loss expense ratio	35.6%	26.9%	35.0%	37.1%
Acquisition cost ratio	(0.4%)	(0.7%)	(0.7%)	(0.7%)
General and administrative expense ratio	27.7%	26.2%	28.6%	27.1%
Expense ratio	27.3%	25.5%	27.9%	26.4%
Combined ratio	62.9%	52.4%	62.9%	63.5%

Comparison of Three Months Ended June 30, 2013 and 2012

Premiums. Gross premiums written increased by \$9.0 million, or 4.9%, for the three months ended June 30, 2013 compared to the same period in 2012. The increase was driven by the continued build out of our Lloyd's platform, new product initiatives and new business across all business units. Bermuda general property added \$4.4 million with increased participations on renewing business combined with new business writings and rate increases. This was partially offset by the reduction in European general property as a result of increased competition. Professional liability added \$4.5 million, driven by the expansion of new initiatives, such as our Bermuda employment practices liability and SME insurance products. However, this growth was partially offset by the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions) and continued competition.

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

	Three Months Ended June 30,		Dollar Change	Percentage Change
	2013	2012		
	(\$ in millions)			
General property	\$ 65.2	\$ 61.2	\$ 4.0	6.5%
Professional liability	57.3	52.8	4.5	8.5%
General casualty	44.3	43.2	1.1	2.5%
Healthcare	21.2	20.3	0.9	4.4%
Other*	4.6	6.1	(1.5)	(24.6%)
	\$ 192.6	\$ 183.6	\$ 9.0	4.9%

* Includes our trade credit line of business

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General property	0.1	(2.5)	(0.2)	0.2	(2.1)	(1.2)	(1.3)	(7.0)	
Professional liability	(0.1)	(1.2)	(1.4)	(8.3)	(1.1)	4.7	(7.4)		
Healthcare	(0.2)	(0.3)	(0.5)	(0.4)	(0.5)	(2.6)	(4.5)		
	\$ 6.2	\$ (3.3)	\$ (7.5)	\$ (11.4)	\$ (7.5)	\$ (3.1)	\$ (1.2)	\$ (1.3)	\$ (29.1)

Acquisition costs. Acquisition costs increased by \$0.2 million, or 33.3%, for the three months ended June 30, 2013 compared to the three months ended June 30, 2012. The negative cost represents ceding commissions received on ceded premiums in excess of the brokerage fees and commissions paid on gross premiums written. The acquisition cost ratio was negative 0.4% for the three months ended June 30, 2013 compared to negative 0.7% for the three months ended June 30, 2012.

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General and administrative expenses. General and administrative expenses increased by \$2.4 million, or 11.1%, for the three months ended June 30, 2013 compared to the three months ended June 30, 2012. The increase in general and administrative expenses was primarily due to higher compensation costs as we increased headcount. The general and administrative expense ratio was 27.7% and 26.2% for the three months ended June 30, 2013 and 2012, respectively. The increase in the general and administrative expense ratio was due to the higher expenses that outpaced the growth in net premiums earned.

Comparison of Six Months Ended June 30, 2013 and 2012

Premiums. Gross premiums written increased by \$23.9 million, or 8.0%, for the six months ended June 30, 2013 compared to the same period in 2012. The increase was driven by the continued expansion of new initiatives such as trade credit, and SME insurance products, which increased \$2.5 million. Healthcare and professional liability added \$7.4 million and \$6.6 million, respectively, with increased participations on renewing business, as well as new business and rate increases. However, this increase was partially offset by the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions), and continued competition.

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

	Six Months Ended June 30,		Dollar Change	Percentage Change
	2013	2012 (\$ in millions)		
General property	\$ 103.9	\$ 98.0	\$ 5.9	6.0%
Professional liability	90.4	83.8	6.6	7.9%
General casualty	68.3	64.9	3.4	5.2%
Healthcare	47.7	40.3	7.4	18.4%
Other*	10.8	10.2	0.6	5.9%
	\$ 321.1	\$ 297.2	\$ 23.9	8.0%

* Includes our trade credit line of business

Net premiums written increased by \$0.1 million, or 0.1%, for the six months ended June 30, 2013 compared to the six months ended June 30, 2012. We ceded to reinsurers 42.7% of gross premiums written for the six months ended June 30, 2013 compared to 38.1% for the six months ended June 30, 2012. The increase was due to the higher quota share cessions on our 2013 renewals for general casualty, general property and trade credit lines of business.

Net premiums earned increased by \$8.7 million, or 5.4%, primarily due to higher net premiums written in the latter half of 2012 and for the six months ended June 30, 2013.

Net losses and loss expenses. Net losses and loss expenses decreased by \$0.4 million, or 0.7%, for the six months ended June 30, 2013 compared to the six months ended June 30, 2012. The loss and loss expense ratio decreased by 2.1 percentage points for the same period driven by higher net favorable prior year reserve development.

Excluding the prior year reserve development, the loss and loss expense ratios would have been 67.4% and 67.5% for the six months ended June 30, 2013 and 2012, respectively.

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	Six Months Ended June 30, 2013		Six Months Ended June 30, 2012		Dollar Change	Change in Percentage Points
	Amount	% of NPE	Amount (\$ in millions)	% of NPE		
Non-catastrophe	\$ 115.3	67.4%	\$ 109.7	67.5%	\$ 5.6	(0.1)Pts
Property catastrophe						
Current period	115.3	67.4	109.7	67.5	5.6	(0.1)
Prior period	(55.4)	(32.4)	(49.4)	(30.4)	(6.0)	(2.0)
Net losses and loss expenses	\$ 59.9	35.0%	\$ 60.3	37.1%	\$ (0.4)	(2.1)Pts

Overall, our international insurance segment recorded net favorable reserve development of \$55.4 million during the six months ended June 30, 2013 compared to net favorable reserve development of \$49.4 million for the six months ended June 30, 2012, as shown in the tables below.

	(Favorable) and Unfavorable Loss Reserve Development by Loss Year For the Six Months Ended June 30, 2013										
	Prior	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
	(\$ in millions)										
General property	\$	\$	\$ (0.1)	\$ (0.2)	\$ 1.1	\$ (1.0)	\$ (3.5)	\$ (4.0)	\$ (9.5)	\$ (8.1)	\$ (25.3)
General casualty	6.3	2.4	(7.0)	(6.7)	(8.7)	(4.7)	(1.2)	(0.2)		0.9	(18.9)
Professional liability	(0.3)	(5.0)	3.3	(2.9)	(10.9)	0.3	(6.5)	(0.4)	(0.1)		(22.5)
Healthcare	(0.1)	(0.3)	(0.5)	(1.1)	8.2	(4.5)	10.6	(0.9)	(0.1)		11.3
	\$ 5.9	\$ (2.9)	\$ (4.3)	\$ (10.9)	\$ (10.3)	\$ (9.9)	\$ (0.6)	\$ (5.5)	\$ (9.7)	\$ (7.2)	\$ (55.4)

The net favorable reserve development for loss years 2004 to 2012 is a result of actual loss emergence being lower than anticipated. The unfavorable reserve development in our healthcare line in the 2007 and 2009 loss years was due to adverse development on individual claims.

	(Favorable) and Unfavorable Loss Reserve Development by Loss Year For the Six Months Ended June 30, 2012									
	Prior	2004	2005	2006	2007	2008	2009	2010	2011	Total
	(\$ in millions)									
General casualty	\$ 4.2	\$ (3.1)	\$ (4.8)	\$ (11.4)	\$ (7.2)	\$ (7.6)	\$	\$	\$ 20.0	\$ (9.9)
General property		0.2	(1.5)	(1.0)	1.1	(2.2)	(1.8)	(6.6)	3.1	(8.7)
Professional liability	(0.2)	(2.3)	(3.1)	(15.1)	(7.2)	7.0				(20.9)
Healthcare	(0.7)	(0.6)	(1.1)	(0.8)	(4.1)	(2.6)				(9.9)
	\$ 3.3	\$ (5.8)	\$ (10.5)	\$ (28.3)	\$ (17.4)	\$ (5.4)	\$ (1.8)	\$ (6.6)	\$ 23.1	\$ (49.4)

The net favorable reserve development for loss years 2004 to 2010 is a result of actual loss emergence being lower than anticipated. The unfavorable reserve development in our general casualty line for loss year 2011 was due to adverse development on an individual claim, that was estimated to reach our full limit of \$20.0 million, net of reinsurance.

Acquisition costs. Acquisition costs decreased by \$0.1 million, or 9.1%, for the six months ended June 30, 2013 compared to the six months ended June 30, 2012. The acquisition cost ratio was negative 0.7% for the six months ended June 30, 2013 and negative 0.7% for the six months ended June 30, 2012.

General and administrative expenses. General and administrative expenses increased by \$4.9 million, or 11.1%, for the six months ended June 30, 2013 compared to the six months ended June 30, 2012. The increase in general and administrative expenses was primarily due to increased salary and related costs incurred as we continue to expand internationally. The general and administrative expense ratios for the six months ended June 30, 2013 and 2012 were 28.6% and 27.1%, respectively. The increase was due to the growth in expenses outpacing growth in

earned premiums.

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The following table summarizes the underwriting results and associated ratios for the reinsurance segment for each of the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(\$ in millions)			
Revenues				
Gross premiums written	\$ 265.3	\$ 197.3	\$ 717.9	\$ 560.4
Net premiums written	253.4	186.7	678.5	549.2
Net premiums earned	222.8	184.3	413.4	353.0
Expenses				
Net losses and loss expenses	\$ 119.8	\$ 115.1	\$ 212.7	\$ 204.5
Acquisition costs	37.7	30.9	72.1	58.6
General and administrative expenses	18.2	17.5	36.5	34.5
Underwriting income	47.1	20.8	92.1	55.4
Ratios				
Loss and loss expense ratio	53.8%	62.4%	51.5%	57.9%
Acquisition cost ratio	16.9%	16.8%	17.4%	16.6%
General and administrative expense ratio	8.1%	9.5%	8.8%	9.8%
Expense ratio	25.0%	26.3%	26.2%	26.4%
Combined ratio	78.8%	88.7%	77.7%	84.3%

Comparison of Three Months Ended June 30, 2013 and 2012

Premiums. Gross premiums written increased by \$68.0 million, or 34.5%, for the three months ended June 30, 2013 compared to the same period in 2012. The increase was driven by new business, combined with increased participations on renewing business and rate increases. Property reinsurance gross premiums written increased by \$30.7 million as North American property reinsurance grew by \$23.0 million. International property reinsurance gross premiums written contributed a further \$7.7 million. Casualty gross premiums written increased by \$23.9 million due to a combination of increased exposures, rates and new business. Within our specialty unit, crop reinsurance gross premiums written increased by \$10.1 million and marine reinsurance contributed a further \$3.2 million. This was partially offset by the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions) and continued competition.

The table below illustrates our gross premiums written by underwriter location for our reinsurance operations.

	Three Months Ended June 30,		Dollar Change	Percentage Change
	2013	2012		
	(\$ in millions)			
United States	\$ 132.9	\$ 83.6	\$ 49.3	59.0%
Bermuda	74.7	59.6	15.1	25.3%
Europe	11.0	15.4	(4.4)	(28.6%)
Singapore	46.7	38.7	8.0	20.7%
	\$ 265.3	\$ 197.3	\$ 68.0	34.5%

The decline in Europe was due to the transfer of business from Europe to the United States as we established our Lloyd's coverholder in Miami.

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

	Three Months Ended June 30, 2013		Three Months Ended June 30, 2012		Dollar Change	Percentage Change
	(\$ in millions)					
Property	\$ 152.4	\$ 121.7	\$ 30.7	25.2%		
Casualty	76.7	52.8	23.9	45.3%		
Specialty	36.2	22.8	13.4	58.8%		
	\$ 265.3	\$ 197.3	\$ 68.0	34.5%		

Net premiums written increased by \$66.7 million, or 35.7%, consistent with the increase in gross premiums written.

Net premiums earned increased by \$38.5 million, or 20.9%, as a result of the increase in net premiums written during the year ended December 31, 2012 and the six months ended June 30, 2013. Premiums related to our reinsurance business earn at a slower rate than those related to our direct insurance business. Direct insurance premiums typically earn ratably over the term of a policy. Reinsurance premiums under a risks attaching reinsurance contract are typically earned over the same period as the underlying policies, or risks, covered by the contract. As a result, the earning pattern of a risks attaching reinsurance contract may extend up to 24 months, reflecting the inception dates of the underlying policies. Property catastrophe premiums, crop reinsurance premiums and premiums for other treaties written on a losses occurring basis generally earn ratably over the term of the reinsurance contract.

Net losses and loss expenses. Net losses and loss expenses increased by \$4.7 million, or 4.1%, for the three months ended June 30, 2013 compared to the three months ended June 30, 2012. The loss and loss expense ratio decreased by 8.6 percentage points for the same period. The increase in net losses and loss expenses was due to growth in business written, partially offset by higher prior year net favorable reserve development for the three months ended June 30, 2013 compared to the same period in 2012.

Excluding the prior year reserve development, the loss and loss expense ratios would have been 62.7% and 66.0% for the three months ended June 30, 2013 and 2012, respectively. The decrease in the loss and loss expense ratio of 3.3 points was primarily due to fewer reported current year large losses in the three months ended June 30, 2013 compared to the three months ended June 30, 2012.

	Three Months Ended June 30, 2013		Three Months Ended June 30, 2012		Dollar Change	Change in Percentage Points
	Amount	% of NPE	Amount	% of NPE		
	(\$ in millions)					
Non-catastrophe	\$ 139.6	62.7%	\$ 121.7	66.0%	\$ 17.9	(3.3)Pts
Property catastrophe						
Current period	139.6	62.7	121.7	66.0	17.9	(3.3)
Prior period	(19.8)	(8.9)	(6.6)	(3.6)	(13.2)	(5.3)
Net losses and loss expenses	\$ 119.8	53.8%	\$ 115.1	62.4%	\$ 4.7	(8.6)Pts

Overall, our reinsurance segment recorded net favorable reserve development of \$19.8 million during the three months ended June 30, 2013 compared to net favorable reserve development of \$6.6 million for the three months ended June 30, 2012, as shown in the tables below.

(Favorable) and Unfavorable Loss Reserve Development by Loss Year										
For the Three Months Ended June 30, 2013										
Prior	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
(\$ in millions)										

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Property	\$	\$ 0.1	\$ (0.5)	\$ 0.1	\$	\$ (0.1)	\$	\$ (0.6)	\$ (1.5)	\$ (22.6)	\$ (25.1)
Casualty	(0.3)	(1.1)	(0.1)	0.8		(1.1)	(0.1)	0.7	3.3	5.3	7.4
Specialty		(0.3)	(0.4)	0.4		(2.7)	1.5		0.8	(1.4)	(2.1)
	\$ (0.3)	\$ (1.3)	\$ (1.0)	\$ 1.3	\$	\$ (3.9)	\$ 1.4	\$ 0.1	\$ 2.6	\$ (18.7)	\$ (19.8)

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The favorable reserve development for the 2012 loss year for our reinsurance segment was largely due to lower than expected reported losses in our property line of business. Our casualty reinsurance line of business experienced higher than expected loss emergence that caused the unfavorable loss reserve development in the 2011 and 2012 loss years.

**(Favorable) and Unfavorable Loss Reserve Development by Loss Year
For the Three Months Ended June 30, 2012**

	Prior	2004	2005	2006	2007	2008	2009	2010	2011	Total
	(\$ in millions)									
Property	\$	\$(0.1)	\$	\$(0.1)	\$(0.1)	\$	1.1	\$(5.9)	\$ 5.4	\$ 0.3
Casualty		(0.5)	1.1	(3.4)	(3.6)	(0.6)	(0.1)	(0.1)	4.7	(1.1)
Specialty		(1.1)	(1.4)	(1.3)	(1.6)	(0.1)		0.2	(0.3)	(5.8)
	\$ 1.2	\$(1.7)	\$(0.3)	\$(4.8)	\$(5.3)	\$(0.7)	\$ 1.0	\$(5.8)	\$ 9.8	\$(6.6)

Acquisition costs. Acquisition costs increased by \$6.8 million, or 22.0%, for the three months ended June 30, 2013 compared to the three months ended 2012, consistent with the increase in premiums. The acquisition cost ratio was 16.9% for the three months ended June 30, 2013 compared to 16.8% for the three months ended June 30, 2012.

General and administrative expenses. General and administrative expenses increased by \$0.7 million, or 4.0%, for the three months ended June 30, 2013 compared to the same period in 2012. The general and administrative expense ratios for the three months ended June 30, 2013 and 2012 were 8.1% and 9.5%, respectively, reflecting the higher growth in net premiums earned relative to expenses in 2013.

Comparison of Six Months Ended June 30, 2013 and 2012

Premiums. Gross premiums written increased by \$157.5 million, or 28.1%, for the six months ended June 30, 2013 compared to the same period in 2012. The increase in gross premiums written was primarily due to new business, from both new products and new regions, as well as increased participations on renewing business combined with premium rate increases. Property reinsurance gross premiums written increased by \$88.7 million as North American property reinsurance grew by \$66.6 million as we increased our participation on a large property catastrophe account. International property reinsurance gross premiums written contributed a further \$22.1 million. Within our specialty unit, crop reinsurance gross premiums written increased by \$29.3 million due to new business, increased participations and rate increases following the U.S. drought conditions in 2012 and marine reinsurance gross premiums written also increased \$9.2 million. Casualty gross premiums written increased by \$25.9 million due to a combination of increased exposures, rates and new business. This was partially offset by the non-renewal of business that did not meet our underwriting requirements (which included inadequate pricing and/or terms and conditions) and continued competition.

The table below illustrates our gross premiums written by underwriter location for our reinsurance operations.

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012	Dollar Change	Percentage Change
	(\$ in millions)			
United States	\$ 355.3	\$ 268.3	\$ 87.0	32.4%
Bermuda	218.2	169.6	48.6	28.7%
Singapore	84.4	67.3	17.1	25.4%
Europe	60.0	55.2	4.8	8.7%
	\$ 717.9	\$ 560.4	\$ 157.5	28.1%

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

	Six Months Ended June 30,		Dollar Change	Percentage Change
	2013	2012 (\$ in millions)		
Property	\$ 364.0	\$ 275.3	\$ 88.7	32.2%
Casualty	174.3	148.4	25.9	17.5%
Specialty	179.6	136.7	42.9	31.4%
	\$ 717.9	\$ 560.4	\$ 157.5	28.1%

Net premiums written increased by \$129.3 million, or 23.5% for the six months ended June 30, 2013 compared to the same period in 2012. The increase in net premiums written is lower than the increase in gross premiums due to purchasing a new collateralized retrocessional catastrophe cover, during the six months ended June 30, 2013, that provides \$25 million limit per occurrence on a worldwide basis, with attachment points varying by risk and geography and a maximum indemnity of \$100 million.

Net premiums earned increased by \$60.4 million, or 17.1%, as a result of the increase in net premiums written during 2012 and the six months ended June 30, 2013 partially offset by the impact of the new retrocessional catastrophe cover.

Net losses and loss expenses. Net losses and loss expenses increased by \$8.2 million, or 4.0%, for the six months ended June 30, 2013 compared to the six months ended June 30, 2012. The loss and loss expense ratio decreased by 6.4 percentage points for the same period. The increase in net losses and loss expenses was due to growth in business written, partially offset by higher net favorable prior year reserve development for the six months ended June 30, 2013 compared to the same period in 2012.

Excluding the prior year reserve development, the loss and loss expense ratios would have been 62.3% and 63.2% for the six months ended June 30, 2013 and 2012, respectively. The decrease in the loss and loss expense ratio of 0.9 points was primarily due to fewer reported current year large losses in the six months ended June 30, 2013 compared to the same period in 2012.

	Six Months Ended June 30, 2013		Six Months Ended June 30, 2012		Dollar Change	Change in Percentage Points
	Amount	% of NPE	Amount (\$ in millions)	% of NPE		
Non-catastrophe	\$ 257.4	62.3%	\$ 223.1	63.2%	\$ 34.3	(0.9)Pts
Property catastrophe						
Current period	257.4	62.3	223.1	63.2	34.3	(0.9)
Prior period	(44.7)	(10.8)	(18.6)	(5.3)	(26.1)	(5.5)
Net losses and loss expenses	\$ 212.7	51.5%	\$ 204.5	57.9%	\$ 8.2	(6.4)Pts

Overall, our reinsurance segment recorded net favorable reserve development of \$44.7 million during the six months ended June 30, 2013 compared to net favorable reserve development of \$18.6 million for the six months ended June 30, 2012, as shown in the tables below.

	(Favorable) and Unfavorable Loss Reserve Development by Loss Year For the Six Months Ended June 30, 2013										
	Prior	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Property	\$	\$ 0.1	\$ (2.3)	\$ 0.1	\$	\$ (0.2)	\$ (0.1)	\$ (2.9)	\$ (8.5)	\$ (35.5)	\$ (49.3)

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Casualty	0.2	(1.2)	(0.3)	0.7	(2.2)	(3.6)	(0.4)	0.9	3.3	5.3	2.7
Specialty		(0.3)	(0.5)	0.3		(3.1)	0.9	(0.1)	2.3	2.4	1.9
	\$ 0.2	\$ (1.4)	\$ (3.1)	\$ 1.1	\$ (2.2)	\$ (6.9)	\$ 0.4	\$ (2.1)	\$ (2.9)	\$ (27.8)	\$ (44.7)

The favorable reserve development for the 2012 loss year for our reinsurance segment was largely due to lower than expected reported losses in our property line of business.

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	(Favorable) and Unfavorable Loss Reserve Development by Loss Year For the Six Months Ended June 30, 2012									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
	(\$ in millions)									
Property	\$	\$ (0.8)	\$ 0.2	\$ (0.1)	\$ 0.1	\$ (0.3)	\$ 2.0	\$ (1.2)	\$ 5.5	\$ 5.4
Casualty	1.1	3.2	(2.7)	(5.1)	(9.4)	(1.2)	(0.1)	(0.1)	5.0	(9.3)
Specialty	(0.3)	(3.2)	(5.1)	(1.8)	(2.2)	(0.1)			(2.0)	(14.7)
	\$ 0.8	\$ (0.8)	\$ (7.6)	\$ (7.0)	\$ (11.5)	\$ (1.6)	\$ 1.9	\$ (1.3)	\$ 8.5	\$ (18.6)

Acquisition costs. Acquisition costs increased by \$13.5 million, or 23.0%, for the six months ended June 30, 2013 compared to the six months ended June 30, 2012, consistent with the increase in premiums. The acquisition cost ratio was 17.4% for the six months ended June 30, 2013, compared to 16.6% for the six months ended June 30, 2012. The increase was due to a \$2.5 million increase in estimated profit commissions for the six months ended June 30, 2013 which increased the acquisition cost ratio by 0.6 percentage points.

General and administrative expenses. General and administrative expenses increased by \$2.0 million, or 5.8%, for the six months ended June 30, 2013 compared to the six months ended June 30, 2012. The increase was due to higher salary and related costs due to higher headcount to support our growing operations. The general and administrative expense ratios for the six months ended June 30, 2013 and 2012 were 8.8% and 9.8%, respectively, reflecting the higher growth in net premiums earned relative to expenses in 2013.

Reserves for Losses and Loss Expenses

Reserves for losses and loss expenses by segment were comprised of the following:

	U.S. Insurance		International Insurance		Reinsurance		Total	
	Jun. 30, 2013	Dec. 31, 2012	Jun. 30, 2013	Dec. 31, 2012	Jun. 30, 2013	Dec. 31, 2012	Jun. 30, 2013	Dec. 31, 2012
	(\$ in millions)							
Case reserves	\$ 539.0	\$ 508.8	\$ 505.7	\$ 550.5	\$ 464.7	\$ 479.8	\$ 1,509.4	\$ 1,539.1
IBNR	1,440.2	1,389.5	1,718.8	1,716.1	1,028.5	1,000.8	4,187.5	4,106.4
Reserve for losses and loss expenses	1,979.2	1,898.3	2,224.5	2,266.6	1,493.2	1,480.6	5,696.9	5,645.5
Reinsurance recoverables	(523.6)	(517.3)	(650.0)	(620.6)	(6.0)	(3.2)	(1,179.6)	(1,141.1)
Net reserve for losses and loss expenses	\$ 1,455.6	\$ 1,381.0	\$ 1,574.5	\$ 1,646.0	\$ 1,487.2	\$ 1,477.4	\$ 4,517.3	\$ 4,504.4

We participate in certain lines of business where claims may not be reported for many years. Accordingly, management does not solely rely upon reported claims on these lines for estimating ultimate liabilities. We also use statistical and actuarial methods to estimate expected ultimate losses and loss expenses. Loss reserves do not represent an exact calculation of liability. Rather, loss reserves are estimates of what we expect the ultimate resolution and administration of claims will cost. These estimates are based on various factors including underwriters' expectations about loss experience, actuarial analysis, comparisons with the results of industry benchmarks and loss experience to date. Loss reserve estimates are refined as experience develops and as claims are reported and resolved. Establishing an appropriate level of loss reserves is an inherently uncertain process. Ultimate losses and loss expenses may differ from our reserves, possibly by material amounts.

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The following tables provide our ranges of loss and loss expense reserve estimates by business segment as of June 30, 2013:

	Reserve for Losses and Loss Expenses Gross of Reinsurance Recoverable		
	Carried Reserves	Low Estimate	High Estimate
U.S. insurance	\$ 1,979.2	\$ 1,553.5	\$ 2,199.4
International insurance	2,224.5	1,737.2	2,492.3
Reinsurance	1,493.2	1,183.9	1,705.8
Consolidated ⁽¹⁾	5,696.9	4,581.4	6,290.8

	Reserve for Losses and Loss Expenses Net of Reinsurance Recoverable		
	Carried Reserves	Low Estimate	High Estimate
U.S. insurance	\$ 1,455.6	\$ 1,141.0	\$ 1,644.0
International insurance	1,574.5	1,228.2	1,787.7
Reinsurance	1,487.2	1,177.9	1,698.9
Consolidated ⁽¹⁾	4,517.3	3,640.8	5,037.0

(1) For statistical reasons, it is not appropriate to add together the ranges of each business segment in an effort to determine the low and high range around the consolidated loss reserves.

Our range for each business segment was determined by utilizing multiple actuarial loss reserving methods along with various assumptions of reporting patterns and expected loss ratios by loss year. The various outcomes of these techniques were combined to determine a reasonable range of required loss and loss expense reserves. While we believe our approach to determine the range of loss and loss expense is reasonable, there are no assurances that actual loss experience will be within the ranges of loss and loss expense noted above.

Our selection of the actual carried reserves is generally above the midpoint of the range. We believe that we should be prudent in our reserving practices due to the lengthy reporting patterns and relatively large limits of net liability for any one risk of our direct excess casualty business and of our casualty reinsurance business. Thus, due to this uncertainty regarding estimates for reserve for losses and loss expenses, we have carried our consolidated reserve for losses and loss expenses, net of reinsurance recoverable, above the midpoint of the low and high estimates for the consolidated net losses and loss expenses. We believe that relying on the more prudent actuarial indications is appropriate for these lines of business.

Reinsurance Recoverable

The following table illustrates our reinsurance recoverable as of June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
	(\$ in millions)	
Ceded case reserves	\$ 223.6	\$ 234.2
Ceded IBNR reserves	956.0	906.9
Reinsurance recoverable	\$ 1,179.6	\$ 1,141.1

We remain obligated for amounts ceded in the event our reinsurers do not meet their obligations. Accordingly, we have evaluated the reinsurers that are providing reinsurance protection to us and will continue to monitor their credit ratings and financial stability. We generally have the right to terminate our treaty reinsurance contracts at any time, upon prior written notice to the reinsurer, under specified circumstances, including

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the assignment to the reinsurer by A.M. Best of a financial strength rating of less than A-. Approximately 99% of ceded reserves as of June 30, 2013 were recoverable from reinsurers who had an A.M. Best rating of A- or higher.

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Liquidity is a measure of our ability to access sufficient cash flows to meet the short-term and long-term cash requirements of our business operations. The Company believes that its cash flows from operations and investments will provide sufficient liquidity for the foreseeable future.

Holdings is a holding company and transacts no business of its own. Cash flows to Holdings may comprise dividends, advances and loans from its subsidiary companies. Holdings is therefore reliant on receiving dividends and other permitted distributions from its subsidiaries to make dividend payments on its common shares.

Our operating subsidiaries depend upon cash inflows from premium receipts, net of commissions, investment income and proceeds from sales and redemptions of investments. Cash outflows for our operating subsidiaries are in the form of claims payments, net of reinsurance recoveries, reinsurance premium payments, purchase of investments, operating expenses and income tax payments as well as dividend payments to the holding company.

Historically, our operating subsidiaries have generated sufficient cash flows to meet all of their obligations. Because of the inherent volatility of our business, the seasonality in the timing of payments by insureds and cedents, the irregular timing of loss payments, and the impact of a change in interest rates and credit spreads on the investment income as well as seasonality in coupon payment dates for fixed income securities, cash flows from operating activities may vary between periods. In the unlikely event that paid losses exceed operating cash flows in any given period, we would use our cash balances available, or liquidate a portion of our investment portfolio in order to meet our short-term liquidity needs. As of June 30, 2013, we held \$674.1 million of unrestricted cash and cash equivalents and \$449.4 million of fixed income securities with a maturity of less than one year to meet short-term liquidity needs. Our remaining fixed income securities, equity securities and other invested assets are available to meet our long-term liquidity needs.

As of June 30, 2013, we had \$150 million available under our revolving loan facility.

Dividend Restrictions

The jurisdictions in which our operating subsidiaries are licensed to write business impose regulations requiring companies to maintain or meet various defined statutory ratios, including solvency and liquidity requirements. Some jurisdictions also place restrictions on the declaration and payment of dividends and other distributions. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources in the Company's 2012 Form 10-K.

Cash Flows

	Six Months Ended June 30,	
	2013	2012
	(\$ in millions)	
Cash flows provided by operating activities	\$ 133.6	\$ 301.8
Cash flows (used in) provided by investing activities	(43.4)	101.2
Cash flows used in financing activities	(90.3)	(170.3)
Effect of exchange rate changes on foreign currency cash	(7.7)	(2.2)
Net (decrease) increase in cash and cash equivalents	(7.8)	230.5
Cash and cash equivalents, beginning of period	681.9	634.0
Cash and cash equivalents, end of period	\$ 674.1	\$ 864.5

The primary sources of cash inflows from operating activities are premiums received, loss payments from reinsurers and investment income. The primary sources of cash outflows from operating activities are ceded premiums paid to reinsurers, claims paid, commissions paid, operating expenses, interest expense and income taxes. The primary factor in our ability to generate positive operating cash flow is underwriting profitability. We have generated positive operating cash flow for more than 10 consecutive years.

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The decrease in cash flows from operations was primarily due to the \$125.1 million increase in paid losses for the six months ended June 30, 2013 as a result of the catastrophe losses from Superstorm Sandy and crop reinsurance losses combined with growth in operations. This was combined with the \$44.7 million increase in the cash outflow for funds held for the six months ended June 30, 2013. The increase in funds held was due to our increased participation in a collateralized property catastrophe program.

In our casualty lines of business, claims may be reported and settled several years after the coverage period has terminated. As a result, we expect that we will generate significant operating cash flow as we accumulate casualty loss reserves on our balance sheet. In our property lines of business, claims are generally reported and paid within a relatively short period of time and we expect volatility in our operating cash flows as losses are incurred. We expect increases in the amount of expected loss payments in future periods with a resulting decrease in operating cash flow; however, we do not expect loss payments to exceed the premiums generated. Actual premiums written and collected and losses and loss expenses paid in any period could vary materially from our expectations and could have a significant and adverse effect on operating cash flow.

Cash flows from investing activities consist primarily of proceeds on the sale of investments and payments for investments acquired in addition to changes in restricted cash. The decrease in cash flows provided by investing activities reflects the net purchase of securities during the six months ended June 30, 2013 compared to net sales during the same period in 2012.

Cash flows from financing activities consist primarily of capital raising activities, which include the issuance of common shares or debt, the repurchase of our shares, the payment of dividends and the repayment of debt. The decrease in cash flows used in financing activities was due to the \$66.3 million decrease in share repurchases for the six months ended June 30, 2013 compared to the same period in 2012. Dividends paid decreased \$15.0 million as the second quarter dividend for 2013 was not paid as of June 30, 2013.

Investments

Our funds are primarily invested in liquid, high-grade fixed income securities. As of June 30, 2013 and December 31, 2012, 89.6% and 89.2%, respectively, of our fixed income portfolio consisted of investment grade securities. The maturity distribution of our fixed-maturity portfolio (on a fair value basis) as of June 30, 2013 and December 31, 2012 was as follows:

	June 30, 2013	December 31, 2012
	(\$ in millions)	
Due in one year or less	\$ 449.4	\$ 573.9
Due after one year through five years	3,106.7	2,835.9
Due after five years through ten years	647.6	774.4
Due after ten years	63.6	73.0
Mortgage-backed	1,589.0	1,958.4
Asset-backed	429.5	410.9
Total	\$ 6,285.8	\$ 6,626.5

We have investments in other invested assets, comprising interests in hedge funds, private equity funds, private securities and high yield loan funds, the carrying value of which was \$849.1 million as of June 30, 2013. Some of these funds have redemption notice requirements. For each of our funds, liquidity is allowed after certain defined periods based on the terms of each fund. See Note 4(b) Investments Other Invested Assets to our unaudited condensed consolidated financial statements for additional details on our other invested assets.

We do not believe that inflation has had a material effect on our consolidated results of operations. The potential exists, after a catastrophe loss, for the development of inflationary pressures in a local economy. The effects of inflation are considered implicitly in pricing. Loss reserves are established to recognize likely loss settlements at the date payment is made. Those reserves inherently recognize the effects of inflation. The actual effects of inflation on our results cannot be accurately known, however, until claims are ultimately resolved.

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Credit Facilities

In the normal course of our operations, we enter into agreements with financial institutions to obtain secured and unsecured credit facilities.

Allied World Assurance Company, Ltd currently has access to up to \$1.45 billion in letters of credit under two letter of credit facilities, a \$1.0 billion uncommitted secured facility with Citibank Europe plc and a \$450 million committed secured credit facility with a syndication of lenders (the Amended Secured Credit Facility). These credit facilities are primarily for the issuance of standby letters of credit to support obligations in connection with the insurance and reinsurance business.

The letters of credit issued under the credit facility with Citibank Europe plc are deemed to be automatically extended without amendment for twelve months from the expiry date, or any future expiration date unless at least 30 days prior to any expiration date Citibank Europe plc notifies us that they elect not to consider the letters of credit renewed for any such additional period.

A portion of the Amended Secured Credit Facility may also be used for revolving loans for general corporate and working capital purposes, up to a maximum of \$150 million. We may request that existing lenders under the Amended Secured Credit Facility make additional commitments from time to time, up to \$150 million, subject to approval by the lenders. The Amended Secured Credit Facility contains representations, warranties and covenants customary for similar bank loan facilities, including certain covenants that, among other things, require us to maintain a certain leverage ratio and financial strength rating. We are in compliance with all covenants under the Amended Secured Credit Facility as of June 30, 2013.

As of June 30, 2013, we had a combined unused letters of credit capacity of \$558.4 million from the Amended Secured Credit Facility and Citibank Europe plc. We believe that this remaining capacity is sufficient to meet our future letter of credit needs. During the six months ended June 30, 2013, we did not utilize the revolving loan available under the Amended Secured Credit Facility.

Pledged Assets

We use trust accounts primarily to meet security requirements for inter-company and certain reinsurance transactions. We also have cash and cash equivalents and investments on deposit with various state or government insurance departments or pledged in favor of ceding companies in order to comply with reinsurance contract provisions and relevant insurance regulations. In addition, our credit facilities are collateralized, at least to the extent of letters of credit outstanding at any given time.

Security arrangements with ceding insurers may subject our assets to security interests or require that a portion of our assets be pledged to, or otherwise held by, third parties. Both of our letter of credit facilities are fully collateralized by assets held in custodial accounts at the Bank of New York Mellon held for the benefit of the banks. Although the investment income derived from our assets while held in trust accrues to our benefit, the investment of these assets is governed by the terms of the letter of credit facilities or the investment regulations of the state or territory of domicile of the ceding insurer, which may be more restrictive than the investment regulations otherwise applicable to us. The restrictions may result in lower investment yields on these assets, which may adversely affect our profitability.

As of June 30, 2013 and December 31, 2012, \$2,226.7 million and \$2,141.2 million, respectively, of cash and cash equivalents and investments were deposited, pledged or held in escrow accounts in favor of ceding companies and other counterparties or government authorities to comply with reinsurance contract provisions, insurance laws and other contract provisions.

In addition, as of June 30, 2013 and December 31, 2012, a further \$1,135.7 million and \$1,225.2 million, respectively, of cash and cash equivalents and investments were pledged as collateral for our credit facilities.

We do not currently anticipate that the restrictions on liquidity resulting from restrictions on the payment of dividends by our subsidiary companies or from assets committed in trust accounts or to collateralize the letter of credit facilities will have a material impact on our ability to carry out our normal business activities, including interest and dividend payments, respectively, on our senior notes (described below) and common shares.

Table of Contents**Financial Strength Ratings**

Financial strength ratings represent the opinions of rating agencies on our capacity to meet our obligations. In the event of a significant downgrade in ratings, our ability to write business and to access the capital markets could be impacted. Our financial strength ratings as of June 30, 2013 have not changed since December 31, 2012. See Item 1. *Business* in our 2012 Form 10-K.

In May 2013, S&P affirmed their financial strength rating of *A* of our operating subsidiaries with a stable outlook.

Capital Resources

The table below sets forth the capital structure of the Company as of June 30, 2013 and December 31, 2012:

	As of June 30, 2013	As of December 31, 2012
	(\$ in millions)	
Senior notes	\$ 798.4	\$ 798.2
Shareholders' equity	3,373.2	3,326.3
Total capitalization	\$ 4,171.6	\$ 4,124.5
Debt to total capitalization	19.1%	19.4%

On September 10, 2012, we filed a shelf registration statement on Form S-3 with the U.S. Securities and Exchange Commission in which we may offer from time to time common shares of Allied World Switzerland, senior or subordinated debt securities of Allied World Bermuda, guarantees of debt securities of Allied World Bermuda, warrants to purchase common shares of Allied World Switzerland, warrants to purchase debt securities of Allied World Bermuda or units which may consist of any combination of the securities listed above. The registration statement is intended to provide us with additional flexibility to access capital markets for general corporate purposes, subject to market conditions and our capital needs.

Share Repurchases

In May 2012, we established a \$500 million share repurchase program. Under the terms of this new share repurchase program, common shares repurchased shall be designated for cancellation and shall be cancelled upon prior shareholder approval. As of June 30, 2013, approximately \$327.7 million remained under this share repurchase authorization.

During the three and six months ended June 30, 2013, our share repurchases were as follows:

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Common shares repurchased	508,328	940,445
Total cost of shares repurchased	\$ 46,326	\$ 82,571
Average price per share	\$ 91.13	\$ 87.80

Shares repurchased by the Company and not designated for cancellation are classified as Treasury shares, at cost on the consolidated balance sheets. The Company will issue shares out of treasury principally related to the Company's employee benefit plans. Shares repurchased and designated for cancellation are constructively retired and recorded as a share cancellation.

Long-Term Debt

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In July 2006, Allied World Bermuda issued \$500.0 million aggregate principal amount of 7.50% senior notes due August 1, 2016, with interest payable August 1 and February 1 each year. Allied World Bermuda can redeem the senior notes prior to maturity, subject to payment of a make-whole premium; however, Allied World Bermuda currently has no intention of redeeming the notes.

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In November 2010, Allied World Bermuda issued \$300.0 million aggregate principal amount of 5.50% senior notes due November 1, 2020, with interest payable May 15 and November 15 each year, commencing May 15, 2011. Allied World Bermuda can redeem the senior notes prior to maturity, subject to payment of a make-whole premium; however, Allied World Bermuda currently has no intention of redeeming the notes.

The senior notes issued in 2006 and 2010 have been unconditionally and irrevocably guaranteed for the payment of the principal and interest by Holdings.

Off-Balance Sheet Arrangements

As of June 30, 2013, we did not have any off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We believe that we are principally exposed to three types of market risk: interest rate risk, credit risk and currency risk.

The fixed income securities in our investment portfolio are subject to interest rate risk and credit risk. Any changes in interest rates and credit spreads have a direct effect on the fair values of fixed income securities. As interest rates rise, the fair values fall, and vice versa. As credit spreads widen, the fair values fall, and vice versa.

In the table below changes in fair values as a result of changes in interest rates is determined by calculating hypothetical June 30, 2013 ending prices based on yields adjusted to reflect the hypothetical changes in interest rates, comparing such hypothetical ending prices to actual ending prices, and multiplying the difference by the principal amount of the security. The sensitivity analysis is based on estimates. The estimated changes of our fixed maturity investments and cash and cash equivalents are presented below and actual changes for interest rate shifts could differ significantly.

	Interest Rate Shift in Basis Points						
	-200	-100	-50	(\$ in millions)	+50	+100	+200
Total fair value	\$ 7,363.3	\$ 7,276.9	\$ 7,218.3	\$ 7,153.9	\$ 7,073.6	\$ 6,997.7	\$ 6,845.0
Fair value change from base	209.4	123.0	64.4		(80.3)	(156.2)	(308.9)
Change in unrealized appreciation/(depreciation)	2.9%	1.7%	0.9%	0%	(1.1%)	(2.2%)	(4.3%)

In the table below changes in fair values as a result of changes in credit spreads are determined by calculating hypothetical June 30, 2013 ending prices adjusted to reflect the hypothetical changes in credit spreads, comparing such hypothetical ending prices to actual ending prices, and multiplying the difference by the principal amount of the security. The sensitivity analysis is based on estimates. The estimated changes of our non-cash, non-U.S. Treasury fixed maturity investments are presented below and actual changes in credit spreads could differ significantly.

	Credit Spread Shift in Basis Points						
	-200	-100	-50	(\$ in millions)	+50	+100	+200
Total fair value	\$ 4,819.6	\$ 4,697.9	\$ 4,637.1	\$ 4,576.3	\$ 4,515.4	\$ 4,454.6	\$ 4,332.9
Fair value change from base	243.3	121.6	60.8		(60.9)	(121.7)	(243.4)
Change in unrealized appreciation/(depreciation)	5.3%	2.7%	1.3%	0%	(1.3%)	(2.7%)	(5.3%)

In addition to credit spread risk, our portfolio is also exposed to the risk of securities being downgraded or of issuers defaulting. In an effort to minimize this risk, our investment guidelines have been defined to ensure that the assets held are well diversified and are primarily high-quality securities.

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The following table shows the types of securities in our portfolio, their fair market values, average rating and portfolio percentage as of June 30, 2013.

	Fair Value June 30, 2013 (\$ in millions)	Average Rating	Portfolio Percentage
Cash and cash equivalents	\$ 868.1	AAA	10.0%
U.S. government securities	1,709.5	AA+	19.7%
U.S. government agencies	339.7	AA+	3.9%
Non-U.S. government and government agencies	233.3	AA+	2.7%
State, municipalities and political subdivisions	33.6	AA-	0.4%
Mortgage-backed securities (MBS):			
Agency MBS	1,037.4	AA+	12.0%
Non-agency MBS	84.4	A-	1.0%
Non-agency high yield mandate	181.6	CCC+	2.1%
Commercial MBS	285.7	AA+	3.3%
Total mortgage-backed securities	1,589.1		18.4%
Corporate securities:			
Financials	794.6	A+	9.2%
Industrials	1,089.9	BBB	12.6%
Utilities	66.7	BBB	0.8%
Total corporate securities	1,951.2		22.6%
Asset-backed securities:			
Credit cards	24.6	AAA	0.3%
Auto receivables	25.4	AAA	0.3%
Student Loans	112.5	AA+	1.3%
Collateralized loan obligations	213.6	AA+	2.5%
Other	53.3	AAA	0.6%
Total asset-backed securities	429.4		5.0%
Other invested assets:			
Private equity	190.1	N/A	2.2%
Hedge funds	492.2	N/A	5.7%
Other private securities	134.7	N/A	1.6%
High yield loan fund	32.1	N/A	0.4%
Total other invested assets	849.1		9.9%
Equities	640.9	N/A	7.4%
Total investment portfolio	\$ 8,644.0		100.0%

As of June 30, 2013, we held \$6.3 billion of fixed income securities. Of those assets, approximately 89.6% were rated investment grade (Baa3/BBB- or higher) with the remaining 10.4% rated in the below investment grade category. The average credit quality of the fixed maturity portfolios was AA- by Standard & Poor's.

Our agency pass-through mortgage-backed securities are exposed to prepayment risk, which occurs when holders of individual mortgages increase the frequency with which they prepay the outstanding principal before the maturity date to refinance at a lower interest rate cost. Given the proportion that these securities comprise of the overall portfolio, and the current interest rate environment and condition of the credit market, prepayment risk is not considered significant at this time.

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Our non-agency commercial mortgage-backed securities are subject to the risk of non-payment due to increased levels of delinquencies, defaults and losses on commercial loans that cumulatively create shortfalls beyond the level of subordination in our specific securities.

As of June 30, 2013, we held investments in other invested assets with a carrying value of \$849.1 million. Included in other invested assets are private equity funds, hedge funds, other private securities and a high yield loan fund. Investments in these types of

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assets involve certain risks related to, among other things, the illiquid nature of the fund shares, the limited operating history of these investments, as well as risks associated with the strategies employed by the managers of these investments. The funds' objectives are generally to seek attractive long-term returns with lower volatility by investing in a range of diversified investment strategies. As our reserves and capital continue to build, we may consider additional investments in these or other alternative investments.

As of June 30, 2013, our direct exposure to European credit across all of Europe was \$577.9 million as outlined in the table below and is included within fixed maturity investments trading, at fair value and equity securities trading, at fair value in the consolidated balance sheets. As of June 30, 2013, we had no direct sovereign exposure to Greece, Ireland, Italy, Portugal or Spain.

	June 30, 2013			
	Sovereign and Sovereign Guaranteed	Structured Products	Corporate Bonds and Equities	Total Exposure
	(\$ in millions)			
Belgium	\$	\$	\$ 18.9	\$ 18.9
France		3.5	41.0	44.5
Germany	55.2	5.9	7.9	69.0
Ireland		1.4	0.7	2.1
Italy			1.3	1.3
Luxembourg			16.9	16.9
Netherlands	36.0		63.8	99.8
Norway	6.7		26.2	32.9
Russia			14.5	14.5
Spain			19.0	19.0
Sweden	5.8		44.1	49.9
Switzerland	2.3		40.9	43.2
United Kingdom	29.0	17.1	119.8	165.9
Total exposure	\$ 135.0	\$ 27.9	\$ 415.0	\$ 577.9

The U.S. dollar is our reporting currency and the functional currency of all of our operating subsidiaries. However, we enter into insurance and reinsurance contracts where the premiums receivable and losses payable are denominated in currencies other than the U.S. dollar. In addition, we maintain a portion of our investments and liabilities in currencies other than the U.S. dollar, primarily Euro, British Sterling, Swiss Franc and the Canadian dollar. Receivables in non-U.S. currencies are generally converted into U.S. dollars at the time of receipt. When we incur a liability in a non-U.S. currency, we carry such liability on our books in the original currency. These liabilities are converted from the non-U.S. currency to U.S. dollars at the time of payment. As a result, we have an exposure to foreign currency risk resulting from fluctuations in exchange rates. We utilize a hedging strategy to minimize the potential loss of value caused by currency fluctuations by using foreign currency forward contract derivatives that expire in 90 days from purchase.

As of June 30, 2013 and December 31, 2012, less than 4.2% and 3.4%, respectively, of our total investments and cash and cash equivalents were denominated in currencies other than the U.S. dollar. Of our business written during the six months ended June 30, 2013 and 2012, approximately 11% and 12%, respectively, was written in currencies other than the U.S. dollar.

Item 4. Controls and Procedures.

In connection with the preparation of this quarterly report, our management has performed an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) as of June 30, 2013. Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by SEC rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow for timely decisions regarding required disclosures. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2013, our company's disclosure controls and procedures were effective to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by SEC rules and forms and accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosures.

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Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide an absolute assurance that all control issues and instances of fraud, if any, within our company have been detected.

No changes were made in our internal controls over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f), during the quarter ended June 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II**OTHER INFORMATION****Item 1. Legal Proceedings.**

The Company, in common with the insurance industry in general, is subject to litigation and arbitration in the normal course of its business. These legal proceedings generally relate to claims asserted by or against the Company in the ordinary course of insurance or reinsurance operations. Estimated amounts payable under these proceedings are included in the reserve for losses and loss expenses in the Company's consolidated balance sheets. As of June 30, 2013, the Company was not a party to any material legal proceedings arising outside the ordinary course of business that management believes will have a material adverse effect on the Company's results of operations, financial position or cash flow.

Item 1A. Risk Factors.

Our business is subject to a number of risks, including those identified in Item 1A. of Part I of our 2012 Form 10-K, that could have a material adverse effect on our business, results of operations, financial condition and/or liquidity and that could cause our operating results to vary significantly from period to period. There have been no material changes to the risk factors described in our 2012 Form 10-K. The risks described in our 2012 Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also could have a material adverse effect on our business, results of operations, financial condition and/or liquidity.

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

(c) The following table summarizes our repurchases of our common shares during the three months ended June 30, 2013:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
April 1 - 30, 2013	112,469	\$ 91.82	112,469	\$ 363.7 million
May 1 - 31, 2013	198,608	90.63	198,608	345.7 million
June 1 - 30, 2013	197,251	91.25	197,251	327.7 million
Total	508,328	\$ 91.13	508,328	\$ 327.7 million (1)

(1) At the 2012 Annual Shareholder Meeting on May 3, 2012, Holdings' shareholders approved a new, two-year \$500 million share repurchase program. Share repurchases may be effected from time to time through open market purchases, privately negotiated transactions, tender offers or otherwise.

Item 3. Defaults Upon Senior Securities.

None.

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Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description
3.1(1)	Articles of Association of Allied World Assurance Company Holdings, AG, as amended and restated.
31.1	Certification by Chief Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Chief Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification by Chief Executive Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification by Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
101.1**	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012, (ii) the Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2013 and 2012, (iii) the Consolidated Statements of Shareholders' Equity for the six months ended June 30, 2013 and 2012, (iv) the Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and 2012 and (v) the Notes to the Consolidated Financial Statements.

(1) Incorporated herein by reference to the Current Report on Form 8-K of Allied World Assurance Company Holdings, AG filed with the SEC on July 9, 2013.

* These certifications are being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, chapter 63 of title 18 United States Code) and are not being filed as part of this report.

** In accordance with Rule 406T of Regulation S-T, the information in Exhibit 101.1 to this Quarterly Report on Form 10-Q is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act, is deemed not filed for purposes of Section 18 of the Exchange Act and otherwise is not subject to liability under these sections.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: August 1, 2013

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG

By: /s/ Scott A. Carmilani
Name: Scott A. Carmilani
Title: President and Chief Executive Officer

Dated: August 1, 2013

By: /s/ Thomas A. Bradley
Name: Thomas A. Bradley
Title: Executive Vice President and Chief Financial Officer

Dated: August 1, 2013

By: /s/ Kent W. Ziegler
Name: Kent W. Ziegler
Title: Senior Vice President, Finance and Chief Accounting Officer

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EXHIBIT INDEX

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