

ALLIED WORLD ASSURANCE CO HOLDINGS LTD

Form 424B3

February 13, 2007

Table of Contents

PROSPECTUS SUPPLEMENT NO. 6
(To Prospectus dated July 21, 2006)

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-135464

\$500,000,000

Allied World Assurance Company Holdings, Ltd

7.50% Senior Notes due 2016

This Prospectus Supplement No. 6 supplements the Market-Making Prospectus, dated July 21, 2006, as supplemented, relating to the public offering of the issuer's 7.50% senior notes due 2016, which closed on July 26, 2006. Goldman, Sachs & Co. is continuing to make a market in the senior notes pursuant to the Market-Making Prospectus.

This Prospectus Supplement No. 6 includes a Current Report on Form 8-K filed with the SEC on February 13, 2007. The Form 8-K includes an earnings release announcing the issuer's financial results for the fourth quarter and year-end 2006.

You should read this Prospectus Supplement No. 6 in conjunction with the Market-Making Prospectus, as supplemented. This Prospectus Supplement No. 6 updates information in the Market-Making Prospectus, as supplemented, and, accordingly, to the extent inconsistent, the information in this Prospectus Supplement No. 6 supersedes the information contained in the Market-Making Prospectus, as supplemented.

Before you invest in the issuer's senior notes, you should read the Market-Making Prospectus, as supplemented, and other documents the issuer has filed with the SEC for more complete information about the issuer and an investment in its senior notes. You may get these documents for free by visiting EDGAR on the SEC Website at www.sec.gov. Alternatively, you may obtain a copy of the Market-Making Prospectus by calling Goldman, Sachs & Co. toll-free at 1-866-471-2526.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement is truthful and complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus Supplement No. 6 is February 13, 2007.

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 8-K

Current Report

**Pursuant to Section 13 or 15 (d) of the
Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): February 12, 2007

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
(Exact Name of Registrant as Specified in Charter)

Bermuda
(State or Other Jurisdiction
of Incorporation)

001-32938
(Commission File Number)

98-0481737
(I.R.S. Employer
Identification No.)

27 Richmond Road
Pembroke HM 08, Bermuda
(Address of Principal Executive Offices and Zip Code)

Registrant's telephone number, including area code: (441) 278-5400

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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TABLE OF CONTENTS

Item 2.02. Results of Operations and Financial Condition

Item 9.01. Financial Statements and Exhibits

SIGNATURES

EXHIBIT INDEX

Table of Contents

Item 2.02. Results of Operations and Financial Condition.

On February 12, 2007, Allied World Assurance Company Holdings, Ltd issued a press release reporting its fourth quarter and year-end results for 2006 and the availability of its fourth quarter and year-end 2006 financial supplement. The press release and the financial supplement are furnished herewith as Exhibit 99.1 and Exhibit 99.2, respectively. The information hereunder is not deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), is not otherwise subject to the liabilities of that section and is not incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit

Number Description

99.1 Press release, dated February 12, 2007, reporting fourth quarter and year-end results for 2006.

99.2 Fourth Quarter and Year-End 2006 Financial Supplement.

Table of Contents

SIGNATURES

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

**ALLIED WORLD ASSURANCE COMPANY
HOLDINGS, LTD**

Dated: February 12, 2007

By: /s/ Joan H. Dillard

Name: Joan H. Dillard

Title: Senior Vice President and Chief
Financial Officer

-3-

Table of Contents

EXHIBIT INDEX

Exhibit

Number Description

99.1 Press release, dated February 12, 2007, reporting fourth quarter and year-end results for 2006.

99.2 Fourth Quarter and Year-End 2006 Financial Supplement.

-4-

Table of Contents

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD REPORTS RECORD
FOURTH QUARTER AND FULL YEAR
2006 OPERATING RESULTS**

PEMBROKE, BERMUDA, February 12, 2007 Allied World Assurance Company Holdings, Ltd (NYSE: AWH) today reported net income of \$128.4 million, or \$2.04 per diluted share, for the fourth quarter 2006 compared to a net loss of \$12.3 million, or \$0.24 per diluted share, for the fourth quarter 2005. Net income for the year ended December 31, 2006 was \$442.8 million, or \$7.75 per diluted share, compared to a net loss of \$159.8 million, or \$3.19 per diluted share, for the year ended December 31, 2005. Results in 2005 were adversely impacted by Hurricanes Katrina, Rita and Wilma.

The company reported record operating income of \$133.6 million, or \$2.12 per diluted share, for the fourth quarter 2006 compared to an operating loss of \$5.3 million, or \$0.11 per diluted share, for the fourth quarter 2005. Operating income for the year ended December 31, 2006 was \$472.1 million, or \$8.27 per diluted share, compared to a net loss of \$147.4 million, or \$2.94 per diluted share, for the year ended December 31, 2005.

President and Chief Executive Officer Scott Carmilani commented, "During the quarter, Allied World marked its fifth anniversary, and we are very proud of what we have accomplished in our first five years. In 2006, we took the company public, consolidated our Bermuda operations into new corporate headquarters and expanded our U.S. operating platform.

On top of these successes, each operating segment performed extremely well during 2006, and we can now report record net and operating income for the quarter and for the full year. We have grown our diluted book value per share by 25% during the year and increased our capital base to over \$2.7 billion, a 42% increase from the beginning of the year.

Mr. Carmilani continued, "As a maturing company with a global diversified platform firmly in place, we are working to maintain our underwriting discipline through the current market conditions. We are bolstered by a very strong balance sheet, strong financial ratings, and an invested asset base that is approaching \$6 billion. We believe that we are very well positioned as we move forward in 2007.

Underwriting Results

Gross premiums written were \$280.1 million in the fourth quarter 2006, a 1.2% decrease compared to \$283.4 million in the fourth quarter 2005. For the year ended December 31, 2006, gross premiums written totaled \$1,659.0 million, a 6.3% increase compared to \$1,560.3 million for the year ended December 31, 2005. This increase was primarily the result of increased premiums from the company's reinsurance segment due to new business written during the year and from upward premium adjustments on prior year business. In addition, premiums written increased due to continued expansion of the company's U.S distribution platform and from increases in general property rates in certain North America catastrophe exposed areas and increased market opportunities that developed following the 2005 hurricane season.

Table of Contents

Net premiums written were \$210.7 million in the fourth quarter 2006, a 1.3% decrease compared to \$213.6 million in the fourth quarter 2005. For the year ended December 31, 2006, net premiums written totaled \$1,306.6 million, a 6.9% increase compared to \$1,222.0 million for the year ended December 31, 2005, which corresponds with the increase in gross premiums written during the same period.

Net premiums earned in the fourth quarter 2006 were \$319.8 million, a 5.9% increase compared to \$302.0 million in the fourth quarter 2005. For the year ended December 31, 2006, net premiums earned totaled \$1,252.0 million, a 1.5% decrease from net premiums earned of \$1,271.5 million for the year ended December 31, 2005. This decrease reflects the reduced level of net premiums written during 2005.

The combined ratio was 75.3% in the fourth quarter 2006 compared to 115.8% in the fourth quarter 2005. The loss ratio was 53.9% in the fourth quarter 2006 compared to 95.6% in the fourth quarter 2005. During the fourth quarter 2006, the company recorded net favorable reserve development on prior accident years of \$43.1 million, a benefit of 13.5 percentage points to the company's loss ratio for this quarter. The combined ratio for the year ended December 31, 2006 was 78.8% compared to 124.4% for the year ended December 31, 2005. Results for the quarter ended December 31, 2005 were impacted by Hurricane Wilma while results for the year ended December 31, 2005 were adversely impacted by Hurricanes Katrina, Rita and Wilma.

Investment Results

Net investment income in the fourth quarter 2006 was \$66.0 million, an increase of 29.9% over the \$50.8 million of net investment income in the fourth quarter 2005. For the year ended December 31, 2006, net investment income was \$244.4 million, an increase of 36.9% over \$178.6 million for the year ended December 31, 2005. These increases primarily reflect the increase in the company's invested asset base driven by strong operating cash flows and the receipt of approximately \$316 million in net proceeds from the company's initial public offering completed in July 2006. During the fourth quarter 2006, the company recorded net realized losses of \$4.2 million compared to net realized losses of \$5.3 million in the fourth quarter 2005. For the year ended December 31, 2006, the company recorded net realized losses of \$28.7 million compared to net realized losses of \$10.2 million for the year ended December 31, 2005.

Legal Matter

The company has a pending legal matter stemming from a Civil Investigative Demand received from the State of Texas in November 2005. Based on discussions with representatives of the Attorney General of that state, the investigation is currently expected to proceed to a settlement. This is likely to result in certain payments that would be adverse to the company. Based on those discussions, the company has reserved \$2.1 million for settlement payments to be made to the State of Texas.

Table of Contents

Shareholders' Equity

Shareholders' equity exceeded \$2.2 billion at December 31, 2006, including net proceeds from the company's initial public offering, compared to \$1.4 billion reported at December 31, 2005. Diluted book value per share was \$35.26 at December 31, 2006 compared to \$28.20 at December 31, 2005. The company's annualized return on average equity for the quarter and the year ended December 31, 2006 was 23.9% and 24.2%, respectively. The company's annualized operating return on average equity for the quarter and the year ended December 31, 2006 was 24.8% and 25.8%, respectively.

Conference Call

Allied World Assurance Company Holdings, Ltd will host a conference call on Tuesday, February 13, 2007 at 8:30 a.m. (Eastern Time) to discuss its fourth quarter financial results. The public may access a live webcast of the conference call at the Investor Relations section of the company's website at www.awac.com. In addition, the conference call can be accessed by dialing (866) 203-3436 (U.S. and Canada callers) or (617) 213-8849 (international callers) and entering the passcode 43663034 approximately ten minutes prior to the call.

Following the conclusion of the presentation, a replay of the call will be available through Tuesday, February 27, 2007 by dialing (888) 286-8010 (U.S. and Canada callers) or (617) 801-6888 (international callers) and entering the passcode 19573156. In addition, the webcast will remain available online through Tuesday, February 27, 2007 at www.awac.com.

Financial Supplement

A financial supplement relating to the fourth quarter of 2006 will be available at the Investor Relations section of the company's website at www.awac.com.

Non-GAAP Financial Measures

In presenting the company's results, management has included and discussed in this press release certain non-GAAP financial measures within the meaning of Regulation G as promulgated by the U.S. Securities and Exchange Commission. 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 GAAP.

Operating income is an internal performance measure used by the company in the management of its operations and represents after-tax operational results excluding, as applicable, net realized investment gains or losses and foreign exchange gains or losses. The company excludes net realized investment gains or losses and net foreign exchange gains or losses from its calculation of operating income because the amount of these gains or losses is heavily influenced by, and fluctuates in part according to, the availability of market

Table of Contents

opportunities. The company believes these amounts are largely independent of its business and underwriting process and including them may distort the analysis of trends in its insurance and reinsurance operations. In addition to presenting net income determined in accordance with GAAP, the company believes that showing operating income enables investors, analysts, rating agencies and other users of its financial information to more easily analyze the company's results of operations in a manner similar to how management analyzes the company's underlying business performance. Operating income should not be viewed as a substitute for GAAP net income.

The company has included diluted book value per share because it takes into account the effect of dilutive securities; therefore, the company believes it is a better measure of calculating shareholder returns than book value per share.

Annualized return on average equity (ROAE) is calculated using average equity, excluding the average after tax unrealized gains or losses on investments. Unrealized gains (losses) on investments are primarily the result of interest rate movements and the resultant impact on fixed income securities. Such gains (losses) are not related to management actions or operational performance, nor are they likely to be realized. Therefore, the company believes that excluding these unrealized gains (losses) provides a more consistent and useful measurement of operating performance, which supplements GAAP information. In calculating ROAE, the net income (loss) available to shareholders for the period is multiplied by the number of such periods in a calendar year in order to arrive at annualized net income (loss) available to shareholders. The company presents ROAE as a measure that is commonly recognized as a standard of performance by investors, analysts, rating agencies and other users of its financial information.

Annualized operating return on average equity is calculated using operating income (as defined above and annualized in the manner described for net income (loss) available to shareholders under ROAE above), and average equity, excluding the average after tax unrealized gains (losses) on investments. Unrealized gains (losses) are excluded from equity for the reasons outlined in the annualized return on average equity explanation above.

Reconciliations of these financial measures to their most directly comparable GAAP measures are included in the attached tables.

About Allied World Assurance Company

Allied World Assurance Company Holdings, Ltd, founded in November 2001, is one of Bermuda's leading property and casualty insurers. The company, through its operating subsidiaries, offers property and casualty insurance and reinsurance on a worldwide basis. The principal operating subsidiaries of Allied World Assurance Company Holdings, Ltd have A (Excellent) ratings from A.M. Best Company and A- ratings from Standard & Poor's. The company's Bermuda and U.S. operating subsidiaries are rated A2 by Moody's Investors Service.

Table of Contents

Forward-Looking Statements

This press release may contain forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995 that involve inherent risks and uncertainties. Statements that are not historical facts, including statements that use terms such as believes, anticipates, intends or expects and that relate to our plans and objectives for future operations, are forward-looking statements. In light of the risks and uncertainties inherent in all forward-looking statements, the inclusion of such statements in this press release should not be considered as a representation by us or any other person that our objectives or plans will be achieved. These statements are based on current plans, estimates and expectations. Actual results may differ materially from those projected in such forward-looking statements and therefore you should not place undue reliance on them. A non-exclusive list of the important factors that could cause actual results to differ materially from those in such forward-looking statements includes the following: (a) the effects of competitors' pricing policies, and of changes in laws and regulations on competition, including industry consolidation and development of competing financial products; (b) the effects of investigations into market practices, in particular insurance brokerage practices, together with any legal or regulatory proceedings, related settlements and industry reform or other changes arising therefrom; (c) the impact of acts of terrorism and acts of war; (d) greater frequency or severity of claims and loss activity, including as a result of natural or man-made catastrophic events, than our underwriting, reserving or investment practices have anticipated; (e) increased competition due to an increase in capacity of property and casualty insurers or reinsurers; (f) the inability to obtain or maintain financial strength ratings by one or more of the company's subsidiaries; (g) the adequacy of our loss reserves and the need to adjust such reserves as claims develop over time; (h) the company or one of its subsidiaries becoming subject to significant income taxes in the United States or elsewhere; (i) changes in regulations or tax laws applicable to the company, its subsidiaries, brokers or customers; (j) changes in the availability, cost or quality of reinsurance or retrocessional coverage; (k) loss of key personnel; (l) changes in general economic conditions, including inflation, foreign currency exchange rates, interest rates and other factors that could affect the company's investment portfolio; and (m) such other risk factors as may be discussed in our most recent documents on file with the SEC. 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.

Table of Contents**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

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

| | Three Months Ended December | | Year Ended December 31, | |
|---|-----------------------------|--------------------|-------------------------|---------------------|
| | 2006 | 31, 2005 | 2006 | 2005 |
| Revenues: | | | | |
| Gross premiums written | \$ 280,111 | \$ 283,393 | \$ 1,659,025 | \$ 1,560,326 |
| Premiums ceded | (69,372) | (69,822) | (352,429) | (338,375) |
| Net premiums written | 210,739 | 213,571 | 1,306,596 | 1,221,951 |
| Change in unearned premiums | 109,052 | 88,461 | (54,586) | 49,560 |
| Net premiums earned | 319,791 | 302,032 | 1,252,010 | 1,271,511 |
| Net investment income | 66,009 | 50,823 | 244,360 | 178,560 |
| Net realized investment losses | (4,190) | (5,286) | (28,678) | (10,223) |
| Total Revenue | 381,610 | 347,569 | 1,467,692 | 1,439,848 |
| Expenses: | | | | |
| Net losses and loss expenses | 172,395 | 288,669 | 739,133 | 1,344,600 |
| Acquisition costs | 34,568 | 33,604 | 141,488 | 143,427 |
| General and administrative expenses | 33,856 | 27,594 | 106,075 | 94,270 |
| Interest expense | 9,510 | 5,832 | 32,566 | 15,615 |
| Foreign exchange loss | 1,092 | 1,670 | 601 | 2,156 |
| Total Expenses | 251,421 | 357,369 | 1,019,863 | 1,600,068 |
| Income (loss) before income taxes | 130,189 | (9,800) | 447,829 | (160,220) |
| Income tax expense (recovery) | 1,827 | 2,478 | 4,991 | (444) |
| NET INCOME (LOSS) | \$ 128,362 | \$ (12,278) | \$ 442,838 | \$ (159,776) |
| PER SHARE DATA: | | | | |
| Basic earnings (loss) per share | \$ 2.13 | \$ (0.24) | \$ 8.09 | \$ (3.19) |
| Diluted earnings (loss) per share | \$ 2.04 | \$ (0.24) | \$ 7.75 | \$ (3.19) |
| Weighted average common shares outstanding | 60,284,459 | 50,162,842 | 54,746,613 | 50,162,842 |
| Weighted average common shares and common share equivalents outstanding | 62,963,243 | 50,162,842 | 57,115,171 | 50,162,842 |

Table of Contents**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

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

| | As of December 31, 2006 | As of December 31, 2005 |
|---|--|--|
| ASSETS: | | |
| Fixed maturity investments available for sale at fair value (amortized cost: 2006: \$5,188,379; 2005: \$4,442,040) | \$ 5,177,812 | \$ 4,390,457 |
| Other invested assets available for sale, at fair value (cost: 2006: \$245,657; 2005: \$270,138) | 262,557 | 296,990 |
| Cash and cash equivalents | 366,817 | 172,379 |
| Restricted cash | 138,223 | 41,788 |
| Securities lending collateral | 304,742 | 456,792 |
| Insurance balances receivable | 304,261 | 218,044 |
| Prepaid reinsurance | 159,719 | 140,599 |
| Reinsurance recoverable | 689,105 | 716,333 |
| Accrued investment income | 51,112 | 48,983 |
| Deferred acquisition costs | 100,326 | 94,557 |
| Intangible assets | 3,920 | 3,920 |
| Balances receivable on sale of investments | 16,545 | 3,633 |
| Income tax assets | 5,140 | 8,516 |
| Other assets | 40,301 | 17,501 |
| Total assets | \$ 7,620,580 | \$ 6,610,492 |
| LIABILITIES: | | |
| Reserve for losses and loss expenses | \$ 3,636,997 | \$ 3,405,353 |
| Unearned premiums | 813,797 | 740,091 |
| Unearned ceding commissions | 23,914 | 27,465 |
| Reinsurance balances payable | 82,212 | 28,567 |
| Securities lending payable | 304,742 | 456,792 |
| Senior notes | 498,577 | |
| Long term debt | | 500,000 |
| Accounts payable and accrued liabilities | 40,257 | 31,958 |
| Total liabilities | \$ 5,400,496 | \$ 5,190,226 |
| SHAREHOLDERS EQUITY: | | |
| Common stock, par value \$0.03 per share, issued and outstanding 2006: 60,287,696 shares; 2005: 50,162,842 shares | 1,809 | 1,505 |
| Additional paid-in capital | 1,822,607 | 1,488,860 |
| Retained earnings (accumulated deficit) | 389,204 | (44,591) |
| | 6,464 | (25,508) |

Accumulated other comprehensive income (loss): net unrealized gains
(losses) on investments, net of tax

| | | |
|--|--------------|--------------|
| Total shareholders equity | 2,220,084 | 1,420,266 |
| Total liabilities and shareholders equity | \$ 7,620,580 | \$ 6,610,492 |

Table of Contents**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
UNAUDITED CONSOLIDATED SEGMENT DATA**

(Expressed in thousands of United States dollars, except for ratio information)

| Three Months Ended December 31, 2006 | Property | Casualty | Reinsurance | Total |
|---|-----------------|-----------------|--------------------|--------------|
| Gross premiums written | \$ 89,072 | \$ 147,314 | \$ 43,725 | \$ 280,111 |
| Net premiums written | 40,846 | 126,169 | 43,724 | 210,739 |
| Net premiums earned | 49,151 | 133,805 | 136,835 | 319,791 |
| Net losses and loss expenses | (28,029) | (72,766) | (71,600) | (172,395) |
| Acquisition costs | (384) | (6,821) | (27,363) | (34,568) |
| General and administrative expenses | (8,061) | (16,935) | (8,860) | (33,856) |
| Underwriting income | 12,677 | 37,283 | 29,012 | 78,972 |
| Net investment income | | | | 66,009 |
| Net realized investment losses | | | | (4,190) |
| Interest expense | | | | (9,510) |
| Foreign exchange loss | | | | (1,092) |
| Income before income taxes | | | | \$ 130,189 |

GAAP Ratios:

| | | | | |
|--|-------|-------|-------|-------|
| Loss and loss expense ratio | 57.0% | 54.4% | 52.3% | 53.9% |
| Acquisition cost ratio | 0.8% | 5.1% | 20.0% | 10.8% |
| General and administrative expense ratio | 16.4% | 12.6% | 6.5% | 10.6% |
| Combined ratio | 74.2% | 72.1% | 78.8% | 75.3% |

| Three Months Ended December 31, 2005 | Property | Casualty | Reinsurance | Total |
|---|-----------------|-----------------|--------------------|--------------|
| Gross premiums written | \$ 96,420 | \$ 154,563 | \$ 32,410 | \$ 283,393 |
| Net premiums written | 47,505 | 133,770 | 32,296 | 213,571 |
| Net premiums earned | 48,276 | 133,481 | 120,275 | 302,032 |
| Net losses and loss expenses | (64,926) | (108,385) | (115,358) | (288,669) |
| Acquisition costs | 2,035 | (8,668) | (26,971) | (33,604) |
| General and administrative expenses | (6,067) | (13,598) | (7,929) | (27,594) |
| Underwriting (loss) income | (20,682) | 2,830 | (29,983) | (47,835) |
| Net investment income | | | | 50,823 |
| Net realized investment losses | | | | (5,286) |
| Interest expense | | | | (5,832) |
| Foreign exchange loss | | | | (1,670) |
| Loss before income taxes | | | | \$ (9,800) |

GAAP Ratios:

| | | | | |
|-----------------------------|--------|-------|-------|-------|
| Loss and loss expense ratio | 134.5% | 81.2% | 95.9% | 95.6% |
| Acquisition cost ratio | (4.2%) | 6.5% | 22.4% | 11.1% |

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| | | | | |
|--|--------|-------|--------|--------|
| General and administrative expense ratio | 12.6% | 10.2% | 6.6% | 9.1% |
| Combined ratio | 142.8% | 97.9% | 124.9% | 115.8% |

Table of Contents**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
UNAUDITED CONSOLIDATED SEGMENT DATA**

(Expressed in thousands of United States dollars, except for ratio information)

| Year Ended December 31, 2006 | Property | Casualty | Reinsurance | Total |
|-------------------------------------|-----------------|-----------------|--------------------|--------------|
| Gross premiums written | \$ 463,903 | \$ 622,387 | \$ 572,735 | \$ 1,659,025 |
| Net premiums written | 193,655 | 540,980 | 571,961 | 1,306,596 |
| Net premiums earned | 190,784 | 534,294 | 526,932 | 1,252,010 |
| Net losses and loss expenses | (114,994) | (331,759) | (292,380) | (739,133) |
| Acquisition costs | 2,247 | (30,396) | (113,339) | (141,488) |
| General and administrative expenses | (26,294) | (52,809) | (26,972) | (106,075) |
| Underwriting income | 51,743 | 119,330 | 94,241 | 265,314 |
| Net investment income | | | | 244,360 |
| Net realized investment losses | | | | (28,678) |
| Interest expense | | | | (32,566) |
| Foreign exchange loss | | | | (601) |
| Income before income taxes | | | | \$ 447,829 |

GAAP Ratios:

| | | | | |
|--|--------|-------|-------|-------|
| Loss and loss expense ratio | 60.3% | 62.1% | 55.5% | 59.0% |
| Acquisition cost ratio | (1.2%) | 5.7% | 21.5% | 11.3% |
| General and administrative expense ratio | 13.8% | 9.9% | 5.1% | 8.5% |
| Combined ratio | 72.9% | 77.7% | 82.1% | 78.8% |

| Year Ended December 31, 2005 | Property | Casualty | Reinsurance | Total |
|-------------------------------------|-----------------|-----------------|--------------------|--------------|
| Gross premiums written | \$ 412,879 | \$ 633,075 | \$ 514,372 | \$ 1,560,326 |
| Net premiums written | 170,781 | 557,622 | 493,548 | 1,221,951 |
| Net premiums earned | 226,828 | 581,330 | 463,353 | 1,271,511 |
| Net losses and loss expenses | (410,265) | (430,993) | (503,342) | (1,344,600) |
| Acquisition costs | (5,685) | (33,544) | (104,198) | (143,427) |
| General and administrative expenses | (20,261) | (44,273) | (29,736) | (94,270) |
| Underwriting (loss) income | (209,383) | 72,520 | (173,923) | (310,786) |
| Net investment income | | | | 178,560 |
| Net realized investment losses | | | | (10,223) |
| Interest expense | | | | (15,615) |
| Foreign exchange loss | | | | (2,156) |
| Loss before income taxes | | | | \$ (160,220) |

GAAP Ratios:

| | | | | |
|-----------------------------|--------|-------|--------|--------|
| Loss and loss expense ratio | 180.9% | 74.1% | 108.6% | 105.7% |
| Acquisition cost ratio | 2.5% | 5.8% | 22.5% | 11.3% |

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| | | | | |
|--|--------|-------|--------|--------|
| General and administrative expense ratio | 8.9% | 7.6% | 6.4% | 7.4% |
| Combined ratio | 192.3% | 87.5% | 137.5% | 124.4% |

Table of Contents**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
UNAUDITED OPERATING INCOME RECONCILIATION**

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

| | Three Months Ended December | | Year Ended December 31, | |
|--------------------------------|------------------------------------|-------------|--------------------------------|--------------|
| | 2006 | 2005 | 2006 | 2005 |
| Net income (loss) | \$ 128,362 | \$ (12,278) | \$ 442,838 | \$ (159,776) |
| Net realized investment losses | 4,190 | 5,286 | 28,678 | 10,223 |
| Foreign exchange loss | 1,092 | 1,670 | 601 | 2,156 |
| Operating income (loss) | \$ 133,644 | \$ (5,322) | \$ 472,117 | \$ (147,397) |

**Weighted average common shares
outstanding:**

| | | | | |
|---------|------------|------------|------------|------------|
| Basic | 60,284,459 | 50,162,842 | 54,746,613 | 50,162,842 |
| Diluted | 62,963,243 | 50,162,842 | 57,115,171 | 50,162,842 |

Basic per share data:

| | | | | |
|--------------------------------|---------|-----------|---------|-----------|
| Net income (loss) | \$ 2.13 | \$ (0.24) | \$ 8.09 | \$ (3.19) |
| Net realized investment losses | 0.07 | 0.11 | 0.52 | 0.21 |
| Foreign exchange loss | 0.02 | 0.02 | 0.01 | 0.04 |
| Operating income (loss) | \$ 2.22 | \$ (0.11) | \$ 8.62 | \$ (2.94) |

Diluted per share data

| | | | | |
|--------------------------------|---------|-----------|------|-----------|
| Net income (loss) | \$ 2.04 | \$ (0.24) | 7.75 | \$ (3.19) |
| Net realized investment losses | 0.06 | 0.11 | 0.51 | 0.21 |
| Foreign exchange loss | 0.02 | 0.02 | 0.01 | 0.04 |
| Operating income (loss) | \$ 2.12 | \$ (0.11) | 8.27 | \$ (2.94) |

Table of Contents**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
UNAUDITED DILUTED BOOK VALUE PER SHARE RECONCILIATION**

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

| | As of December 31, 2006 | As of December 31, 2005 |
|--|--|--|
| Price per share at period end | \$ 43.63 | N/A |
| Total shareholders' equity | 2,220,084 | 1,420,266 |
| Basic common shares outstanding | 60,287,696 | 50,162,842 |
| Add: unvested restricted share units | 704,372 | 127,163 |
| Add: long-term incentive plan share units | 342,501 | |
| Add: dilutive options/warrants outstanding | 6,695,990 | 662,833 |
| Weighted average exercise price per share | \$ 33.02 | \$ 24.88 |
| Less: treasury stock method adjustment | (5,067,534) | (582,486) |
| Common shares and common share equivalents outstanding | 62,963,025 | 50,370,352 |
| Basic book value per common share | \$ 36.82 | \$ 28.31 |
| Diluted book value per common share | \$ 35.26 | \$ 28.20 |

Table of Contents

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
UNAUDITED ANNUALIZED RETURN ON SHAREHOLDERS EQUITY RECONCILIATION
(Expressed in thousands of United States dollars, except for percentage information)

| | Three Months Ended | | Year Ended December 31, | |
|--|---------------------------|--------------|--------------------------------|--------------|
| | December 31, | | December 31, | |
| | 2006 | 2005 | 2006 | 2005 |
| Opening shareholders equity | \$ 2,094,872 | \$ 1,441,956 | \$ 1,420,266 | \$ 2,138,521 |
| (Deduct)/add: net unrealized (gains) losses on investments, net of tax | (3,447) | 16,095 | 25,508 | (33,171) |
| Adjusted opening shareholders equity | 2,091,425 | 1,458,051 | 1,445,774 | 2,105,350 |
| Closing shareholders equity | 2,220,084 | 1,420,266 | 2,220,084 | 1,420,266 |
| (Deduct)/add: net unrealized (gains) losses on investments, net of tax | (6,464) | 25,508 | (6,464) | 25,508 |
| Adjusted closing shareholders equity | 2,213,620 | 1,445,774 | 2,213,620 | 1,445,774 |
| Average shareholders equity | \$ 2,152,523 | \$ 1,451,913 | \$ 1,829,697 | \$ 1,775,562 |
| Net income (loss) available to shareholders | \$ 128,362 | \$ (12,278) | \$ 442,838 | \$ (159,776) |
| Annualized net income (loss) available to shareholders | 513,448 | (49,112) | 442,838 | (159,776) |
| Annualized return on average shareholders equity net income (loss) available to shareholders | 23.9% | (3.4%) | 24.2% | (9.0%) |
| Operating income (loss) available to shareholders | \$ 133,644 | \$ (5,322) | \$ 472,117 | \$ (147,397) |
| Annualized operating income (loss) available to shareholders | 534,576 | (21,288) | 472,117 | (147,397) |
| Annualized return on average shareholders equity operating income (loss) available to shareholders | 24.8% | (1.5%) | 25.8% | (8.3%) |

Table of Contents

For further information, please contact:

Investor Contact:

Keith Lennox
Allied World Assurance Company
212-635-5319
keith.lennox@awac.com

Media Contact:

Jamie Tully/Susan Burns
Sard Verbinnen & Co
212-687-8080
jtully@sardverb.com
sburns@sardverb.com

Table of Contents

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD

This report is for informational purposes only. It should be read in conjunction with documents filed by Allied World Assurance Company Holdings, Ltd with the U.S. Securities and Exchange Commission.

Investor Contact:

Keith Lennox

Phone: (212) 635-5319

Fax: (212) 635-5532

email: keith.lennox@awac.com

Table of Contents

NOTE ON FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995 that involve inherent risks and uncertainties. Statements that are not historical facts, including statements that use terms such as believes , anticipates , intends or expects and that relate to our plans and objectives for future operations, are forward-looking statements. In light of the risks and uncertainties inherent in all forward-looking statements, the inclusion of such statements in this report should not be considered as a representation by us or any other person that our objectives or plans will be achieved. These statements are based on current plans, estimates and expectations. Actual results may differ materially from those projected in such forward-looking statements and therefore you should not place undue reliance on them. A non-exclusive list of the important factors that could cause actual results to differ materially from those in such forward-looking statements includes the following: (a) the effects of competitors' pricing policies, and of changes in laws and regulations on competition, including industry consolidation and development of competing financial products; (b) the effects of investigations into market practices, in particular insurance brokerage practices, together with any legal or regulatory proceedings, related settlements and industry reform or other changes arising therefrom; (c) the impact of acts of terrorism and acts of war; (d) greater frequency or severity of claims and loss activity, including as a result of natural or man-made catastrophic events, than our underwriting, reserving or investment practices have anticipated; (e) increased competition due to an increase in capacity of property and casualty insurers or reinsurers; (f) the inability to obtain or maintain financial strength ratings by one or more of the company's subsidiaries; (g) the adequacy of our loss reserves and the need to adjust such reserves as claims develop over time; (h) the company or one of its subsidiaries becoming subject to significant income taxes in the United States or elsewhere; (i) changes in regulations or tax laws applicable to the company, its subsidiaries, brokers or customers; (j) changes in the availability, cost or quality of reinsurance or retrocessional coverage; (k) loss of key personnel; (l) changes in general economic conditions, including inflation, foreign currency exchange rates, interest rates and other factors that could affect the company's investment portfolio; and (m) such other risk factors as may be discussed in our most recent documents on file with the U.S. Securities and Exchange Commission (SEC). We undertake 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.

Table of Contents

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
FINANCIAL SUPPLEMENT TABLE OF CONTENTS**

| | | Page |
|------|--|-------------|
| | Basis of Presentation | 4 |
| I. | Financial Highlights | |
| | - Consolidated Financial Highlights | 5 |
| II. | Consolidated Results | |
| | - Consolidated Statements of Operations Consecutive Quarters | 6 |
| | - Consolidated Statements of Operations Year to Date | 7 |
| | - Consolidated Premium Distribution Analysis Current Quarter | 8 |
| | - Consolidated Premium Distribution Analysis Year to Date | 9 |
| III. | Segment Results | |
| | - Consolidated Segment Results Current Quarter | 10 |
| | - Consolidated Segment Results Year to Date | 11 |
| IV. | Balance Sheet Details | |
| | - Consolidated Balance Sheets | 12 |
| | - Investment Portfolio | 13 |
| | - Reserve for Losses and Loss Expenses | 14 |
| | - Capital Structure | 15 |
| V. | Other | |
| | - Basic and Diluted Earnings per Share | 16 |
| | - Return on Average Shareholders Equity Consecutive Quarters | 17 |
| | - Return on Average Shareholders Equity Year to Date | 18 |
| | - Diluted Book Value per Share | 19 |
| | - Annualized Investment Book Yield | 20 |
| | - Regulation G | 22 |

Table of Contents

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
BASIS OF PRESENTATION**

DEFINITIONS AND PRESENTATION

- All financial information contained herein is unaudited.
- Unless otherwise noted, all data is in thousands of U.S. dollars, except for share, per share, percentage and ratio information.
- Allied World Assurance Company Holdings, Ltd, along with others in the industry, uses underwriting ratios as measures of performance. The loss ratio is calculated by dividing net losses and loss expenses by net premiums earned. The acquisition cost ratio is calculated by dividing acquisition costs by net premiums earned. The general and administrative expense ratio is calculated by dividing general and administrative expenses by net premiums earned. The expense ratio is calculated by combining the acquisition cost ratio and the general and administrative expense ratio. The combined ratio is calculated by combining the loss ratio, the acquisition cost ratio and the general and administrative expense ratio. These ratios are relative measurements that describe for every \$100 of net premiums earned or written, the cost of losses and expenses, respectively. The combined ratio presents the total cost per \$100 of earned or written premium. A combined ratio below 100% demonstrates underwriting profit; a combined ratio above 100% demonstrates underwriting loss.
- In presenting the company's results, management has included and discussed certain non-GAAP financial measures, as such term is defined in Regulation G 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 GAAP. The reconciliation of such non-GAAP financial measures to their respective most directly comparable GAAP financial measures in accordance with Regulation G is included in this financial supplement. See page 22 for further details.

Page 4

Table of Contents**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
CONSOLIDATED FINANCIAL HIGHLIGHTS**

| | THREE MONTHS ENDED | | YEAR ENDED | | Previous Quarter Change | Previous Year to Date Change |
|--|----------------------|----------------------|----------------------|----------------------|-------------------------------|---------------------------------------|
| | DECEMBER 31, 2006 | DECEMBER 31, 2005 | DECEMBER 31, 2006 | DECEMBER 31, 2005 | | |
| HIGHLIGHTS | | | | | | |
| premiums written | \$ 280,111 | \$ 283,393 | \$ 1,659,025 | \$ 1,560,326 | (1.2%) | 6.3% |
| Net premiums written | 210,739 | 213,571 | 1,306,596 | 1,221,951 | (1.3%) | 6.9% |
| Net premiums earned | 319,791 | 302,032 | 1,252,010 | 1,271,511 | 5.9% | (1.5%) |
| Net investment income | 66,009 | 50,823 | 244,360 | 178,560 | 29.9% | 36.9% |
| Net income (loss) | 128,362 | (12,278) | 442,838 | (159,776) | (1145.5%) | (377.2%) |
| Operating income (loss) | 133,644 | (5,322) | 472,117 | (147,397) | (2611.2%) | (420.3%) |
| Total assets | 7,620,580 | 6,610,492 | 7,620,580 | 6,610,492 | 15.3% | 15.3% |
| Total shareholders equity | 2,220,084 | 1,420,266 | 2,220,084 | 1,420,266 | 56.3% | 56.3% |
| Cash flows from operating activities | 111,141 | 140,206 | 762,146 | 730,111 | (20.7%) | 4.4% |
| PER SHARE AND SHARE DATA | | | | | | |
| Basic earnings per share | \$ 2.13 | \$ (0.24) | \$ 8.09 | \$ (3.19) | (987.5%) | (353.6%) |
| Operating income (loss) | \$ 2.22 | \$ (0.11) | \$ 8.62 | \$ (2.94) | (2118.2%) | (393.2%) |
| Diluted earnings per share | \$ 2.04 | \$ (0.24) | \$ 7.75 | \$ (3.19) | (950.0%) | (342.9%) |
| Operating income (loss) | \$ 2.12 | \$ (0.11) | \$ 8.27 | \$ (2.94) | (2027.3%) | (381.3%) |
| Weighted average common shares outstanding | | | | | | |
| Basic | 60,284,459 | 50,162,842 | 54,746,613 | 50,162,842 | | |
| Diluted | 62,963,243 | 50,162,842 | 57,115,171 | 50,162,842 | | |

| | | | | | | | | | | |
|--|----|-------|----|-------|----|-------|----|-------|-------|-------|
| Book value | \$ | 36.82 | \$ | 28.31 | \$ | 36.82 | \$ | 28.31 | 30.1% | 30.1% |
| Diluted book value (treasury stock method) | \$ | 35.26 | \$ | 28.20 | \$ | 35.26 | \$ | 28.20 | 25.0% | 25.0% |

FINANCIAL**RATIOS**

| | | | | | | | | | | | | |
|--|--|-------|--|--------|--|-------|--|--------|--|------------|--|------------|
| Return on average equity (ROAE), net income (loss) | | 23.9% | | (3.4%) | | 24.2% | | (9.0%) | | 27.3pts | | 33.2pts |
| ROAE, operating income (loss) | | 24.8% | | (1.5%) | | 25.8% | | (8.3%) | | 26.3pts | | 34.1pts |
| Annualized investment book yield | | 4.4% | | 3.7% | | 4.5% | | 3.9% | | 0.7pts | | 0.6pts |
| Loss and loss expense ratio | | 53.9% | | 95.6% | | 59.0% | | 105.7% | | (41.7) pts | | (46.7) pts |
| Acquisition cost ratio | | 10.8% | | 11.1% | | 11.3% | | 11.3% | | (0.3) pts | | pts |
| General and administrative expense ratio | | 10.6% | | 9.1% | | 8.5% | | 7.4% | | 1.5pts | | 1.1pts |
| Expense ratio | | 21.4% | | 20.2% | | 19.8% | | 18.7% | | 1.2pts | | 1.1pts |
| Combined ratio | | 75.3% | | 115.8% | | 78.8% | | 124.4% | | (40.5) pts | | (45.6) pts |

Table of Contents

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
CONSOLIDATED STATEMENTS OF OPERATIONS**

| | THREE MONTHS ENDED DECEMBER 31, 2006 | THREE MONTHS ENDED SEPTEMBER 30, 2006 | THREE MONTHS ENDED JUNE 30, 2006 | THREE MONTHS ENDED MARCH 31, 2006 | THREE MONTHS ENDED DECEMBER 31, 2005 | THREE MONTHS ENDED SEPTEMBER 30, 2005 |
|--|---|--|---|--|---|--|
| Revenues | | | | | | |
| Gross premiums written | \$ 280,111 | \$ 362,478 | \$ 518,316 | \$ 498,120 | \$ 283,393 | \$ 329,930 |
| Net premiums written | \$ 210,739 | \$ 298,016 | \$ 370,338 | \$ 427,503 | \$ 213,571 | \$ 249,720 |
| Net premiums earned | \$ 319,791 | \$ 317,759 | \$ 305,517 | \$ 308,943 | \$ 302,032 | \$ 313,276 |
| Net investment income | 66,009 | 61,407 | 54,943 | 62,001 | 50,823 | 47,592 |
| Net realized investment (losses) gains | (4,190) | (9,080) | (10,172) | (5,236) | (5,286) | 4,152 |
| Total revenues | \$ 381,610 | \$ 370,086 | \$ 350,288 | \$ 365,708 | \$ 347,569 | \$ 365,020 |
| Expenses | | | | | | |
| Net losses and loss expenses | \$ 172,395 | \$ 180,934 | \$ 179,844 | \$ 205,960 | \$ 288,669 | \$ 593,276 |
| Acquisition costs | 34,568 | 37,785 | 32,663 | 36,472 | 33,604 | 35,871 |
| General and administrative expenses | 33,856 | 25,640 | 26,257 | 20,322 | 27,594 | 20,795 |
| Foreign exchange loss (gain) | 1,092 | (561) | (475) | 545 | 1,670 | (46) |
| Interest expense | 9,510 | 9,529 | 7,076 | 6,451 | 5,832 | 5,146 |
| Total expenses | \$ 251,421 | \$ 253,327 | \$ 245,365 | \$ 269,750 | \$ 357,369 | \$ 655,042 |
| Income (loss) before income taxes | | | | | | |
| | \$ 130,189 | \$ 116,759 | \$ 104,923 | \$ 95,958 | \$ (9,800) | \$ (290,022) |
| Income tax expense (recovery) | 1,827 | 2,774 | 2,553 | (2,163) | 2,478 | (6,617) |
| Net income (loss) | \$ 128,362 | \$ 113,985 | \$ 102,370 | \$ 98,121 | \$ (12,278) | \$ (283,405) |

GAAP Ratios

| | | | | | | |
|--|-------|-------|-------|-------|--------|--------|
| Loss and loss expense ratio | 53.9% | 56.9% | 58.9% | 66.7% | 95.6% | 189.4% |
| Acquisition cost ratio | 10.8% | 11.9% | 10.7% | 11.8% | 11.1% | 11.5% |
| General and administrative expense ratio | 10.6% | 8.1% | 8.6% | 6.6% | 9.1% | 6.6% |
| Expense ratio | 21.4% | 20.0% | 19.3% | 18.4% | 20.2% | 18.1% |
| Combined ratio | 75.3% | 76.9% | 78.2% | 85.1% | 115.8% | 207.5% |

Page 6

Table of Contents

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
CONSOLIDATED STATEMENTS OF OPERATIONS**

| | YEAR ENDED DECEMBER 31, 2006 | YEAR ENDED DECEMBER 31, 2005 |
|--|---|---|
| Revenues | | |
| Gross premiums written | \$ 1,659,025 | \$ 1,560,326 |
| Net premiums written | 1,306,596 | 1,221,951 |
| Net premiums earned | \$ 1,252,010 | \$ 1,271,511 |
| Net investment income | 244,360 | 178,560 |
| Net realized investment losses | (28,678) | (10,223) |
| Total revenues | \$ 1,467,692 | \$ 1,439,848 |
| Expenses | | |
| Net losses and loss expenses | \$ 739,133 | \$ 1,344,600 |
| Acquisition costs | 141,488 | 143,427 |
| General and administrative expenses | 106,075 | 94,270 |
| Foreign exchange loss | 601 | 2,156 |
| Interest expense | 32,566 | 15,615 |
| Total expenses | \$ 1,019,863 | \$ 1,600,068 |
| Income (loss) before income taxes | \$ 447,829 | \$ (160,220) |
| Income tax expense (recovery) | 4,991 | (444) |
| Net income (loss) | \$ 442,838 | \$ (159,776) |
| GAAP Ratios | | |
| Loss and loss expense ratio | 59.0% | 105.7% |
| Acquisition cost ratio | 11.3% | 11.3% |
| General and administrative expense ratio | 8.5% | 7.4% |
| Expense ratio | 19.8% | 18.7% |
| Combined ratio | 78.8% | 124.4% |

Table of Contents

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
CONSOLIDATED PREMIUM DISTRIBUTION
FOR THE THREE MONTHS ENDED DECEMBER 31, 2006
Gross Premiums Written = \$280,111**

Table of Contents

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
CONSOLIDATED PREMIUM DISTRIBUTION
FOR THE YEAR ENDED DECEMBER 31, 2006
Gross Premiums Written = \$1,659,025**

Table of Contents

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
CONSOLIDATED SEGMENT RESULTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2006**

| | PROPERTY | CASUALTY | REINSURANCE | CONSOLIDATED TOTALS |
|--|------------------|-------------------|--------------------|--------------------------------|
| Revenues | | | | |
| Gross premiums written | \$ 89,072 | \$ 147,314 | \$ 43,725 | \$ 280,111 |
| Net premiums written | \$ 40,846 | \$ 126,169 | \$ 43,724 | \$ 210,739 |
| Net premiums earned | \$ 49,151 | \$ 133,805 | \$ 136,835 | \$ 319,791 |
| Total revenues | \$ 49,151 | \$ 133,805 | \$ 136,835 | \$ 319,791 |
| Expenses | | | | |
| Net losses and loss expenses | \$ 28,029 | \$ 72,766 | \$ 71,600 | \$ 172,395 |
| Acquisition costs | 384 | 6,821 | 27,363 | 34,568 |
| General and administrative expenses | 8,061 | 16,935 | 8,860 | 33,856 |
| Total expenses | \$ 36,474 | \$ 96,522 | \$ 107,823 | \$ 240,819 |
| Underwriting Income | \$ 12,677 | \$ 37,283 | \$ 29,012 | \$ 78,972 |
| GAAP Ratios | | | | |
| Loss and loss expense ratio | 57.0% | 54.4% | 52.3% | 53.9% |
| Acquisition cost ratio | 0.8% | 5.1% | 20.0% | 10.8% |
| General and administrative expense ratio | 16.4% | 12.6% | 6.5% | 10.6% |
| Expense ratio | 17.2% | 17.7% | 26.5% | 21.4% |
| Combined ratio | 74.2% | 72.1% | 78.8% | 75.3% |

Table of Contents

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
CONSOLIDATED SEGMENT RESULTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

| | PROPERTY | CASUALTY | REINSURANCE | CONSOLIDATED TOTALS |
|--|-------------------|-------------------|--------------------|--------------------------------|
| Revenues | | | | |
| Gross premiums written | \$ 463,903 | \$ 622,387 | \$ 572,735 | \$ 1,659,025 |
| Net premiums written | \$ 193,655 | \$ 540,980 | \$ 571,961 | \$ 1,306,596 |
| Net premiums earned | \$ 190,784 | \$ 534,294 | \$ 526,932 | \$ 1,252,010 |
| Total revenues | \$ 190,784 | \$ 534,294 | \$ 526,932 | \$ 1,252,010 |
| Expenses | | | | |
| Net losses and loss expenses | \$ 114,994 | \$ 331,759 | \$ 292,380 | \$ 739,133 |
| Acquisition costs | (2,247) | 30,396 | 113,339 | 141,488 |
| General and administrative expenses | 26,294 | 52,809 | 26,972 | 106,075 |
| Total expenses | \$ 139,041 | \$ 414,964 | \$ 432,691 | \$ 986,696 |
| Underwriting Income | \$ 51,743 | \$ 119,330 | \$ 94,241 | \$ 265,314 |
| GAAP Ratios | | | | |
| Loss and loss expense ratio | 60.3% | 62.1% | 55.5% | 59.0% |
| Acquisition cost ratio | (1.2%) | 5.7% | 21.5% | 11.3% |
| General and administrative expense ratio | 13.8% | 9.9% | 5.1% | 8.5% |
| Expense ratio | 12.6% | 15.6% | 26.6% | 19.8% |
| Combined ratio | 72.9% | 77.7% | 82.1% | 78.8% |

Table of Contents

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
CONSOLIDATED BALANCE SHEETS**

| | DECEMBER 31, 2006 | DECEMBER 31, 2005 |
|---|------------------------------|------------------------------|
| ASSETS | | |
| Fixed maturity investments available for sale, at fair value | \$ 5,177,812 | \$ 4,390,457 |
| Other invested assets available for sale, at fair value | 262,557 | 296,990 |
| Cash and cash equivalents | 366,817 | 172,379 |
| Restricted cash | 138,223 | 41,788 |
| Securities lending collateral | 304,742 | 456,792 |
| Insurance balances receivable | 304,261 | 218,044 |
| Prepaid reinsurance | 159,719 | 140,599 |
| Reinsurance recoverable | 689,105 | 716,333 |
| Accrued investment income | 51,112 | 48,983 |
| Deferred acquisition costs | 100,326 | 94,557 |
| Intangible assets | 3,920 | 3,920 |
| Balances receivable on sale of investments | 16,545 | 3,633 |
| Income tax assets | 5,140 | 8,516 |
| Other assets | 40,301 | 17,501 |
| TOTAL ASSETS | \$ 7,620,580 | \$ 6,610,492 |
| LIABILITIES | | |
| Reserve for losses and loss expenses | \$ 3,636,997 | \$ 3,405,353 |
| Unearned premiums | 813,797 | 740,091 |
| Unearned ceding commissions | 23,914 | 27,465 |
| Reinsurance balances payable | 82,212 | 28,567 |
| Securities lending payable | 304,742 | 456,792 |
| Senior notes | 498,577 | |
| Long term debt | | 500,000 |
| Accounts payable and accrued liabilities | 40,257 | 31,958 |
| TOTAL LIABILITIES | \$ 5,400,496 | \$ 5,190,226 |
| SHAREHOLDERS EQUITY | | |
| Common shares, par value \$0.03 per share: 60,287,696 issued and outstanding (2005 - 50,162,842) | \$ 1,809 | \$ 1,505 |
| Additional paid-in capital | 1,822,607 | 1,488,860 |
| Retained earnings (accumulated deficit) | 389,204 | (44,591) |
| Accumulated other comprehensive income (loss): net unrealized gains (losses) on investments, net of tax | 6,464 | (25,508) |
| TOTAL SHAREHOLDERS EQUITY | \$ 2,220,084 | \$ 1,420,266 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 7,620,580 | \$ 6,610,492 |

| | | | | |
|--|----|-------|----|-------|
| Book value per share | \$ | 36.82 | \$ | 28.31 |
| Diluted book value per share (treasury stock method) | | 35.26 | \$ | 28.20 |

Page 12

Table of Contents**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
INVESTMENT PORTFOLIO**

| | DECEMBER 31, 2006 FAIR MARKET VALUE | | SEPTEMBER 30, 2006 FAIR MARKET VALUE | | JUNE 30, 2006 FAIR MARKET VALUE | | MARCH 31, 2006 FAIR MARKET VALUE | |
|--|--|--------|---|--------|--|--------|---|--------|
| MARKET VALUE | | | | | | | | |
| Fixed maturities available for sale | \$ 5,177,812 | 95.2% | \$ 5,283,799 | 95.4% | \$ 4,808,403 | 94.8% | \$ 4,530,702 | 94.5% |
| Other invested assets available for sale | 262,557 | 4.8% | 256,997 | 4.6% | 264,700 | 5.2% | 265,412 | 5.5% |
| Total | \$ 5,440,369 | 100.0% | \$ 5,540,796 | 100.0% | \$ 5,073,103 | 100.0% | \$ 4,796,114 | 100.0% |
| ASSET ALLOCATION BY MARKET VALUE | | | | | | | | |
| U.S. government and agencies | 1,700,052 | 28.6% | \$ 2,412,080 | 41.1% | \$ 2,375,542 | 44.7% | \$ 2,093,638 | 41.5% |
| Non-U.S. government securities | 97,319 | 1.6% | 99,504 | 1.7% | 91,384 | 1.7% | 86,227 | 1.7% |
| Corporate securities | 1,318,136 | 22.2% | 1,057,457 | 18.0% | 839,861 | 15.8% | 901,198 | 17.9% |
| Mortgage-backed securities | 1,823,907 | 30.7% | 1,456,789 | 24.9% | 1,248,140 | 23.5% | 1,252,926 | 24.9% |
| Asset-backed securities | 238,398 | 3.9% | 257,969 | 4.4% | 253,476 | 4.8% | 196,713 | 3.9% |
| Fixed Income Sub-Total | 5,177,812 | 87.0% | 5,283,799 | 90.1% | 4,808,403 | 90.5% | 4,530,702 | 89.9% |
| Global high-yield bond fund | 33,031 | 0.6% | 31,724 | 0.5% | 30,519 | 0.6% | 30,662 | 0.6% |
| Hedge funds | 229,526 | 3.9% | 225,273 | 3.9% | 234,181 | 4.4% | 234,750 | 4.7% |
| Cash & cash equivalents | 505,040 | 8.5% | 321,719 | 5.5% | 237,222 | 4.5% | 243,760 | 4.8% |
| Total | \$ 5,945,409 | 100.0% | \$ 5,862,515 | 100.0% | \$ 5,310,325 | 100.0% | \$ 5,039,874 | 100.0% |
| CREDIT QUALITY BY MARKET VALUE | | | | | | | | |
| | 1,700,052 | 32.8% | \$ 2,412,080 | 45.7% | \$ 2,374,326 | 49.5% | \$ 2,093,639 | 46.2% |

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U.S. government
and agencies

| | | | | | | | | |
|---------|--------------|--------|--------------|--------|--------------|--------|--------------|--------|
| AAA/Aaa | 2,426,331 | 46.9% | 2,005,127 | 37.9% | 1,752,653 | 36.4% | 1,696,107 | 37.4% |
| AA/Aa | 306,242 | 5.9% | 274,377 | 5.2% | 246,483 | 5.1% | 125,120 | 2.8% |
| A/A | 699,267 | 13.5% | 546,204 | 10.3% | 418,172 | 8.7% | 594,014 | 13.1% |
| BBB/Baa | 45,919 | 0.9% | 46,011 | 0.9% | 16,769 | 0.3% | 21,822 | 0.5% |
| Total | \$ 5,177,812 | 100.0% | \$ 5,283,799 | 100.0% | \$ 4,808,403 | 100.0% | \$ 4,530,702 | 100.0% |

STATISTICS

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Annualized book yield, year to date | 4.5% | 4.3% | 4.3% | 4.3% |
| Duration | 2.8 years | 3.0 years | 3.2 years | 2.9 years |
| Average credit quality (S&P) | AA | AA | AA | AA |

Table of Contents

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
ANALYSIS OF RESERVE FOR LOSSES AND LOSS EXPENSES**

AT DECEMBER 31, 2006

| | PROPERTY | CASUALTY | REINSURANCE | CONSOLIDATED TOTAL |
|---|-------------------|---------------------|--------------------|-------------------------------|
| Case reserves (net of reinsurance recoverable) | \$ 285,199 | \$ 113,369 | \$ 197,366 | \$ 595,934 |
| IBNR (net of reinsurance recoverable) | 138,788 | 1,577,799 | 635,371 | 2,351,958 |
| Total | \$ 423,987 | \$ 1,691,168 | \$ 832,737 | \$ 2,947,892 |
| IBNR/Total reserves (net of reinsurance recoverable) | 32.7% | 93.3% | 76.3% | 79.8% |

AT DECEMBER 31, 2005

| | PROPERTY | CASUALTY | REINSURANCE | CONSOLIDATED TOTAL |
|---|-------------------|---------------------|--------------------|-------------------------------|
| Case reserves (net of reinsurance recoverable) | \$ 347,025 | \$ 77,557 | \$ 240,131 | \$ 664,713 |
| IBNR (net of reinsurance recoverable) | 196,610 | 1,341,578 | 486,119 | 2,024,307 |
| Total | \$ 543,635 | \$ 1,419,135 | \$ 726,250 | \$ 2,689,020 |
| IBNR/Total reserves (net of reinsurance recoverable) | 36.2% | 94.5% | 66.9% | 75.3% |

| | QUARTER ENDED DECEMBER 31, 2006 | YEAR ENDED DECEMBER 31, 2006 | QUARTER ENDED DECEMBER 31, 2005 | YEAR ENDED DECEMBER 31, 2005 |
|---------------------------------|--|---|--|---|
| Net losses incurred related to: | | | | |
| Current year | 215,456 | 849,850 | 305,447 | 1,393,685 |
| Prior years | (43,061) | (110,717) | (16,778) | (49,085) |
| Total incurred | 172,395 | 739,133 | 288,669 | 1,344,600 |

Page 14

Table of Contents**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
CAPITAL STRUCTURE**

| | DECEMBER 31, 2006 | SEPTEMBER 30, 2006 | JUNE 30, 2006 | MARCH 31, 2006 | DECEMBER 31, 2005 |
|--|----------------------------------|-----------------------------------|--------------------------|-------------------------------|----------------------------------|
| Senior notes/long-term debt | \$ 498,577 | \$ 498,543 | \$ 500,000 | \$ 500,000 | \$ 500,000 |
| Shareholders equity | 2,220,084 | 2,094,872 | 1,565,062 | 1,478,907 | 1,420,266 |
| Total capitalization | \$ 2,718,661 | \$ 2,593,415 | \$ 2,065,062 | \$ 1,978,907 | \$ 1,920,266 |
| Leverage ratios | | | | | |
| <i>Debt to total capitalization</i> | <i>18.3%</i> | <i>19.2%</i> | <i>24.2%</i> | <i>25.3%</i> | <i>26.0%</i> |
| Annual net premiums written (trailing 12 months) | \$ 1,306,596 | \$ 1,309,428 | \$ 1,261,132 | \$ 1,210,800 | \$ 1,221,951 |
| Closing shareholders equity | \$ 2,220,084 | \$ 2,094,872 | \$ 1,565,062 | \$ 1,478,907 | \$ 1,420,266 |
| Deduct/(add): accumulated other comprehensive income (loss) | 6,464 | 3,447 | (83,144) | (64,988) | (25,508) |
| Adjusted shareholders equity | \$ 2,213,620 | \$ 2,091,425 | \$ 1,648,206 | \$ 1,543,895 | \$ 1,445,774 |
| <i>Net premiums written (trailing 12 months) to adjusted shareholders equity</i> | <i>0.59</i> | <i>0.63</i> | <i>0.77</i> | <i>0.78</i> | <i>0.85</i> |

Table of Contents

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
OPERATING INCOME RECONCILIATION AND
EARNINGS PER SHARE INFORMATION**

| | THREE MONTHS ENDED DECEMBER 31, | | YEAR ENDED DECEMBER 31, | |
|--------------------------------|--|-------------|------------------------------------|--------------|
| | 2006 | 2005 | 2006 | 2005 |
| Net income (loss) | \$ 128,362 | \$ (12,278) | \$ 442,838 | \$ (159,776) |
| Add: | | | | |
| Net realized investment losses | 4,190 | 5,286 | 28,678 | 10,223 |
| Foreign exchange loss | 1,092 | 1,670 | 601 | 2,156 |
| Operating income (loss) | \$ 133,644 | \$ (5,322) | \$ 472,117 | \$ (147,397) |

**Weighted average common shares
outstanding**

| | | | | |
|---------|------------|------------|------------|------------|
| Basic | 60,284,459 | 50,162,842 | 54,746,613 | 50,162,842 |
| Diluted | 62,963,243 | 50,162,842 | 57,115,171 | 50,162,842 |

Basic per share data

| | | | | |
|--------------------------------|---------|-----------|---------|-----------|
| Net income (loss) | \$ 2.13 | \$ (0.24) | \$ 8.09 | \$ (3.19) |
| Add: | | | | |
| Net realized investment losses | 0.07 | 0.11 | 0.52 | 0.21 |
| Foreign exchange loss | 0.02 | 0.02 | 0.01 | 0.04 |
| Operating income (loss) | \$ 2.22 | \$ (0.11) | \$ 8.62 | \$ (2.94) |

Diluted per share data

| | | | | |
|--------------------------------|---------|-----------|---------|-----------|
| Net income (loss) | \$ 2.04 | \$ (0.24) | \$ 7.75 | \$ (3.19) |
| Add (less): | | | | |
| Net realized investment losses | 0.06 | 0.11 | 0.51 | 0.21 |
| Foreign exchange loss | 0.02 | 0.02 | 0.01 | 0.04 |
| Operating income (loss) | \$ 2.12 | \$ (0.11) | \$ 8.27 | \$ (2.94) |

Table of Contents

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
RETURN ON AVERAGE SHAREHOLDERS EQUITY AND
RECONCILIATION OF AVERAGE SHAREHOLDERS EQUITY**

| | THREE MONTHS ENDED DECEMBER 31, 2006 | THREE MONTHS ENDED SEPTEMBER 30, 2006 | THREE MONTHS ENDED JUNE 30, 2006 | THREE MONTHS ENDED MARCH 31, 2006 | THREE MONTHS ENDED DECEMBER 31, 2005 |
|--|---|--|---|--|---|
| Opening shareholders equity | \$ 2,094,872 | \$ 1,565,062 | \$ 1,478,907 | \$ 1,420,266 | \$ 1,441,956 |
| (Deduct)/add: net unrealized (gains) losses on investments, net of tax | (3,447) | 83,144 | 64,988 | 25,508 | 16,095 |
| Adjusted opening shareholders equity | \$ 2,091,425 | \$ 1,648,206 | \$ 1,543,895 | \$ 1,445,774 | \$ 1,458,051 |
| Closing shareholders equity | \$ 2,220,084 | \$ 2,094,872 | \$ 1,565,062 | \$ 1,478,907 | \$ 1,420,266 |
| (Deduct)/add: net unrealized (gains) losses on investments, net of tax | (6,464) | (3,447) | 83,144 | 64,988 | 25,508 |
| Adjusted closing shareholders equity | \$ 2,213,620 | \$ 2,091,425 | \$ 1,648,206 | \$ 1,543,895 | \$ 1,445,774 |
| Average shareholders equity | \$ 2,152,523 | \$ 1,869,816 | \$ 1,596,051 | \$ 1,494,835 | \$ 1,451,913 |
| Net income (loss) available to shareholders | \$ 128,362 | \$ 113,985 | \$ 102,370 | \$ 98,121 | \$ (12,278) |
| Annualized net income (loss) available to shareholders | 513,448 | 455,940 | 409,480 | 392,484 | (49,112) |
| Operating income (loss) available to shareholders | \$ 133,644 | \$ 122,504 | \$ 112,067 | \$ 103,902 | \$ (5,322) |
| Annualized operating income (loss) available to shareholders | 534,576 | 490,016 | 448,268 | 415,608 | (21,288) |

| | | | | | |
|--|-------|-------|-------|-------|--------|
| Annualized return on average shareholders equity net income (loss) available to shareholders | 23.9% | 24.4% | 25.7% | 26.3% | (3.4%) |
|--|-------|-------|-------|-------|--------|

| | | | | | |
|--|-------|-------|-------|-------|--------|
| Annualized return on average shareholders equity operating income (loss) available to shareholders | 24.8% | 26.2% | 28.1% | 27.8% | (1.5%) |
|--|-------|-------|-------|-------|--------|

Table of Contents

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
RETURN ON AVERAGE SHAREHOLDERS EQUITY AND
RECONCILIATION OF AVERAGE SHAREHOLDERS EQUITY**

| | YEAR ENDED DECEMBER 31, 2006 | YEAR ENDED DECEMBER 31, 2005 |
|---|---|---|
| Opening shareholders equity | \$ 1,420,266 | \$ 2,138,521 |
| Add/(deduct): net unrealized losses (gains) on investments, net of tax | 25,508 | (33,171) |
| Adjusted opening shareholders equity | \$ 1,445,774 | \$ 2,105,350 |
| Closing shareholders equity | \$ 2,220,084 | \$ 1,420,266 |
| (Deduct)/add: net unrealized (gains) losses on investments, net of tax | (6,464) | 25,508 |
| Adjusted closing shareholders equity | \$ 2,213,620 | \$ 1,445,774 |
| Average shareholders equity | \$ 1,829,697 | \$ 1,775,562 |
| Net income (loss) available to shareholders | \$ 442,838 | \$ (159,776) |
| Operating income (loss) available to shareholders | \$ 472,117 | \$ (147,397) |
| Annualized return on average shareholders equity net income (loss) available to ordinary shareholders | 24.2% | (9.0%) |
| Annualized return on average shareholders equity operating income (loss) available to shareholders | 25.8% | (8.3%) |

Page 18

Table of Contents

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
DILUTED BOOK VALUE PER SHARE

| | | DECEMBER 31, | |
|--|---|---------------------|-------------|
| | | 2006 | 2005 |
| | Price per share at period end | \$ 43.63 | N/A |
| | Total shareholders equity | 2,220,084 | 1,420,266 |
| DILUTIVE COMMON SHARES OUTSTANDING: | Basic common shares outstanding | 60,287,696 | 50,162,842 |
| | Add: unvested restricted share units | 704,372 | 127,163 |
| | Add: Long-Term Incentive Plan share units | 342,501 | |
| TREASURY STOCK METHOD | Add: dilutive options/warrants outstanding | 6,695,990 | 662,833 |
| | Weighted average exercise price per share | \$ 33.02 | \$ 24.88 |
| | Deduct: treasury stock method adjustment | (5,067,534) | (582,486) |
| | Common shares and common share equivalents outstanding | 62,963,025 | 50,370,352 |
| | Basic book value per common share | \$ 36.82 | \$ 28.31 |
| | Diluted book value per common share | \$ 35.26 | \$ 28.20 |

Page 19

Table of Contents

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
ANNUALIZED INVESTMENT BOOK YIELD**

| | THREE MONTHS ENDED DECEMBER 31, 2006 | THREE MONTHS ENDED DECEMBER 31, 2005 | YEAR ENDED DECEMBER 31, 2006 | YEAR ENDED DECEMBER 31, 2005 |
|---|---|---|---|---|
| Net investment income | 66,009 | 50,823 | 244,360 | 178,560 |
| Deduct: annual/non-recurring items | 723 | 7,778 | N/A | N/A |
| Net investment income, recurring | 65,286 | 43,045 | 244,360 | 178,560 |
| Annualized net investment income, recurring | 261,144 | 172,180 | 244,360 | 178,560 |
| Add: annual/non-recurring items | 723 | 7,778 | N/A | N/A |
| Normalized net investment income | 261,867 | 179,958 | 244,360 | 178,560 |
| Fixed maturity investments available for sale, amortized cost | 5,289,411 | 4,389,361 | 4,442,040 | 3,890,759 |
| Other invested assets, available for sale, cost | 246,854 | 272,484 | 270,138 | 162,587 |
| Cash and cash equivalents | 270,848 | 175,933 | 172,379 | 200,812 |
| Restricted cash | 50,871 | 57,586 | 41,788 | |
| Balances receivable on sale of investments | 70,174 | 300 | 3,633 | |
| Balances due on purchase of investments | (66,874) | (86,926) | | |
| Opening aggregate invested assets | 5,861,284 | 4,808,738 | 4,929,978 | 4,254,158 |
| Fixed maturity investments available for sale, amortized cost | 5,188,379 | 4,442,040 | 5,188,379 | 4,442,040 |
| Other invested assets, available for sale, cost | 245,657 | 270,138 | 245,657 | 270,138 |
| Cash and cash equivalents | 366,817 | 172,379 | 366,817 | 172,379 |
| Restricted cash | 138,223 | 41,788 | 138,223 | 41,788 |
| Balances receivable on sale of investments | 16,545 | 3,633 | 16,545 | 3,633 |
| Balances due on purchase of investments | | | | |
| Closing aggregate invested assets | 5,955,621 | 4,929,978 | 5,955,621 | 4,929,978 |
| Average aggregate invested assets | 5,908,453 | 4,869,358 | 5,442,800 | 4,592,068 |

| | | | | |
|----------------------------------|------|------|------|------|
| Annualized investment book yield | 4.4% | 3.7% | 4.5% | 3.9% |
|----------------------------------|------|------|------|------|

Table of Contents

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
ANNUALIZED INVESTMENT BOOK YIELD**

| | NINE MONTHS ENDED SEPTEMBER 30, 2006 | SIX MONTHS ENDED JUNE 30, 2006 | THREE MONTHS ENDED MARCH 31, 2006 |
|--|---|---|--|
| Net investment income | 178,351 | 116,944 | 62,001 |
| Deduct: annual/non-recurring items | 11,689 | 11,808 | 11,582 |
| Net investment income, recurring | 166,662 | 105,136 | 50,419 |
| Annualized net investment income, recurring | 222,216 | 210,272 | 201,676 |
| Add: annual/non-recurring items | 11,689 | 11,808 | 11,582 |
| Normalized net investment income | 233,905 | 222,080 | 213,258 |
| Fixed maturity investments available for sale, amortized cost | 4,442,040 | 4,442,040 | 4,442,040 |
| Other invested assets, available for sale, cost | 270,138 | 270,138 | 270,138 |
| Cash and cash equivalents | 172,379 | 172,379 | 172,379 |
| Restricted cash | 41,788 | 41,788 | 41,788 |
| Balances receivable on sale of investments | 3,633 | 3,633 | 3,633 |
| Balances due on purchase of investments | | | |
| Opening aggregate invested assets | 4,929,978 | 4,929,978 | 4,929,978 |
| Fixed maturity investments available for sale, amortized cost | 5,289,411 | 4,907,653 | 4,613,208 |
| Other invested assets, available for sale, cost | 246,854 | 247,975 | 247,486 |
| Cash and cash equivalents | 270,848 | 223,602 | 188,599 |
| Restricted cash | 50,871 | 13,620 | 55,161 |
| Balances receivable on sale of investments | 70,174 | 2,433 | 1,224 |
| Balances due on purchase of investments | (66,874) | (76,779) | |
| Closing aggregate invested assets | 5,861,284 | 5,318,504 | 5,105,678 |
| Average aggregate invested assets | 5,395,631 | 5,124,241 | 5,017,828 |
| Annualized investment book yield | 4.3% | 4.3% | 4.3% |

Page 21

Table of Contents**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD
REGULATION G**

In presenting the company's results, management has included and discussed certain non-GAAP financial measures. 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 GAAP.

OPERATING INCOME

Operating income is an internal performance measure used by the company in the management of its operations and represents after-tax operational results excluding, as applicable, net realized investment gains or losses and foreign exchange gains or losses. The company excludes net realized investment gains or losses and net foreign exchange gains or losses from its calculation of operating income because the amount of these gains or losses is heavily influenced by, and fluctuates in part according to, the availability of market opportunities. The company believes these amounts are largely independent of its business and underwriting process and including them distorts the analysis of trends in its operations. In addition to presenting net income determined in accordance with GAAP, the company believes that showing operating income enables investors, analysts, rating agencies and other users of its financial information to more easily analyze the company's results of operations in a manner similar to how management analyzes the company's underlying business performance. Operating income should not be viewed as a substitute for GAAP net income. See page 16 for a reconciliation of operating income to net income.

ANNUALIZED RETURN ON AVERAGE EQUITY (ROAE)

Annualized return on average equity is calculated using average equity, excluding the average after tax unrealized gains or losses on investments. Unrealized gains (losses) on investments are primarily the result of interest rate movements and the resultant impact on fixed income securities. Such gains (losses) are not related to management actions or operational performance, nor is it likely to be realized. Therefore, the company believes that excluding these unrealized gains (losses) provides a more consistent and useful measurement of operating performance, which supplements GAAP information. In calculating ROAE, the net income (loss) available to shareholders for the period is multiplied by the number of such periods in a calendar year in order to arrive at annualized net income (loss) available to shareholders. The company presents ROAE as a measure that is commonly recognized as a standard of performance by investors, analysts, rating agencies and other users of its financial information. See pages 17 and 18 for reconciliations of average equity.

ANNUALIZED OPERATING RETURN ON AVERAGE EQUITY

Annualized operating return on average equity is calculated using 1) operating income (as defined above and annualized in the manner described for net income (loss) available to shareholders under ROAE above), and 2) average equity, excluding the average after tax unrealized gains (losses) on investments. Unrealized gains (losses) are excluded from equity for the reasons outlined in the annualized return on average equity explanation above. See page 16 for a reconciliation of net income to operating income and page 17 and 18 for reconciliations of average equity.

ANNUALIZED INVESTMENT BOOK YIELD

Annualized investment book yield is calculated by dividing normalized net investment income by average aggregate invested assets at book value. In calculating annualized investment book yield, normalized net investment income for the period is multiplied by the number of such periods in a calendar year in order to arrive at annualized net investment income. Normalized net investment income is adjusted for known annual or non-recurring items. The company utilizes and presents the investment yield in order to better disclose the performance of the company's investments and to show the components of the company's ROAE. See pages 20 and 21 for reconciliations of annualized investment book yield.

DILUTED BOOK VALUE PER SHARE

The company has included diluted book value per share because it takes into account the effect of dilutive securities; therefore, the company believes it is a better measure of calculating shareholder returns than book value per share. Please see page 19 for a reconciliation of diluted book value per share to basic book value per share.