

ALLIED WORLD ASSURANCE CO HOLDINGS LTD

Form 424B3

November 08, 2007

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PROSPECTUS SUPPLEMENT NO. 5  
(To Prospectus dated May 1, 2007)

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. 5 supplements the Market-Making Prospectus, dated May 1, 2007, 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. 5 includes a Current Report on Form 8-K filed with the SEC on November 8, 2007. The Form 8-K includes an earnings release announcing the issuer's financial results for the fiscal quarter ended September 30, 2007.

You should read this Prospectus Supplement No. 5 in conjunction with the Market-Making Prospectus. This Prospectus Supplement No. 5 updates information in the Market-Making Prospectus and, accordingly, to the extent inconsistent, the information in this Prospectus Supplement No. 5 supersedes the information contained in the Market-Making Prospectus.

Before you invest in the issuer's senior notes, you should read the Market-Making Prospectus 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](http://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. 5 is November 8, 2007.

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**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): November 7, 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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**Item 2.02. Results of Operations and Financial Condition**

On November 7, 2007, Allied World Assurance Company Holdings, Ltd issued a press release reporting its third quarter 2007 results and the availability of its third quarter 2007 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 November 7, 2007, reporting third quarter results. |
| 99.2 | Third Quarter 2007 Financial Supplement.                                |

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**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: November 7, 2007

By: /s/ Joan H. Dillard  
Name: Joan H. Dillard  
Title: Senior Vice President and Chief  
Financial Officer

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**EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b> | <b>Description</b>  |
|---------------------------|---|
| 99.1                      | Press release, dated November 7, 2007, reporting third quarter results. |
| 99.2                      | Third Quarter 2007 Financial Supplement.                                |

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Exhibit 99.1

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD REPORTS THIRD  
QUARTER 2007 OPERATING RESULTS AND ANNOUNCES INCREASED  
QUARTERLY DIVIDEND**

**PEMBROKE, BERMUDA, November 7, 2007** - Allied World Assurance Company Holdings, Ltd (NYSE: AWH) today reported net income of \$109.0 million, or \$1.72 per diluted share, for the third quarter 2007 compared to net income of \$114.0 million, or \$1.89 per diluted share, for the third quarter 2006. Net income for the nine months ended September 30, 2007 was \$346.2 million, or \$5.51 per diluted share, compared to net income of \$314.5 million, or \$5.76 per diluted share, for the first nine months of 2006.

The company reported operating income of \$112.2 million, or \$1.77 per diluted share, for the third quarter 2007 compared to operating income of \$122.5 million, or \$2.03 per diluted share, for the third quarter 2006. Operating income for the nine months ended September 30, 2007 was \$357.9 million, or \$5.70 per diluted share, compared to operating income of \$338.5 million, or \$6.20 per diluted share, for the first nine months of 2006. The decrease in diluted earnings per share amounts reflects the increase in the number of common shares outstanding resulting primarily from the company's initial public offering in July 2006.

The company's annualized net income return on average equity for the three and nine months ended September 30, 2007 was 17.5% and 19.4%, respectively. The company's annualized operating return on average equity for the three and nine months ended September 30, 2007 was 18.0% and 20.0%, respectively.

President and Chief Executive Officer Scott Carmilani commented, "Allied World continues to produce consistent results and to grow shareholders' book value. Through September, the company has increased diluted book value per share by 19.8%, on an annualized basis. The company has benefited from significantly increasing investment income and from a light catastrophe period.

Mr. Carmilani continued, "We are in an increasingly challenging marketplace, characterized by increased competition and rate declines in direct insurance business. We continue to put our highest priority on underwriting discipline. At this time, we are being very selective in underwriting business that meets our target risk and return profile.

Mr. Carmilani added, "However, we will continue to pursue what we believe are good business opportunities and diversify our global operating platforms. Specifically, we are engaging highly talented teams of people and expanding our platform and product offerings in carefully selected markets and geographies in order to pursue the best returns possible.

Underwriting Results

Gross premiums written for both the three and nine months ended September 30, 2007 in each operating segment were down over the comparable 2006 periods as a result of

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increasing competition and declining rates for new and renewal business, as well as the non-renewal of business that did not meet our underwriting requirements.

Gross premiums written were \$276.3 million in the third quarter 2007, a 23.8% decrease compared to \$362.5 million in the third quarter 2006. Approximately \$32.8 million of this decrease was due to the timing of a renewal and estimated premium adjustments in the reinsurance segment. One large treaty that previously renewed in the third quarter of 2006 was renewed in the second quarter of 2007 for approximately \$23.1 million, and there was a reduction in estimated premium adjustments of approximately \$9.7 million recorded in the third quarter 2007 as compared to the third quarter 2006. The adjusted reduction in gross premiums written would have been 15.1% for the third quarter 2007 compared to the third quarter 2006.

For the nine months ended September 30, 2007, gross premiums written totaled \$1,245.2 million, a 9.7% decrease compared to \$1,378.9 million in the first nine months of 2006. Of this decrease, approximately \$59.6 million was due to a reduction in estimated premium adjustments recorded in the reinsurance segment in the first nine months of 2007 as compared to the first nine months of 2006. Absent these adjustments, gross premiums written would have been reduced by 5.6% for the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006.

Net premiums written were \$219.3 million in the third quarter 2007, a 26.4% decrease compared to \$298.0 million in the third quarter 2006. For the nine months ended September 30, 2007, net premiums written totaled \$963.7 million, a 12.1% decrease compared to \$1,095.9 million in the first nine months of 2006. The decrease in net premiums written reflected the reduction in gross premiums written and the increased utilization of reinsurance in the casualty segment. Net premiums earned in the third quarter 2007 were \$283.7 million, a 10.7% decrease compared to \$317.8 million for the third quarter 2006. For the nine months ended September 30, 2007, net premiums earned totaled \$873.3 million, a 6.3% decrease from net premiums earned of \$932.2 million in the first nine months of 2006.

The combined ratio was 84.1% in the third quarter 2007 compared to 76.9% in third quarter 2006. The loss and loss expense ratio was 61.1% in the third quarter 2007 compared to 56.9% in the third quarter 2006. During the third quarter 2007, the company recorded net favorable reserve development on prior loss years of \$28.6 million, a benefit of 10.1 percentage points to the company's loss and loss expense ratio for this quarter. In the third quarter 2006, the company recorded net favorable reserve development on prior loss years of \$38.7 million, a benefit of 12.2 percentage points to the company's loss and loss expense ratio for that quarter. The combined ratio for the nine months ended September 30, 2007 was 81.2% compared to 80.0% for the first nine months of 2006.

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**Investment Results**

Net investment income in the third quarter 2007 was \$76.1 million, an increase of 24.0% over the \$61.4 million of net investment income in the third quarter 2006. For the nine months ended September 30, 2007, net investment income was \$222.7 million, an increase of 24.9% over the \$178.4 million of net investment income in the first nine months of 2006. These increases primarily reflect the growth in the company's invested asset base driven by positive operating cash flows and increased interest rates.

Net realized investment losses for the three and nine months ended September 30, 2007 were \$4.2 million and \$12.2 million, respectively. During the three and nine months ended September 30, 2007, the company recorded write-downs of approximately \$25.4 million and \$37.7 million, respectively, related to declines in market value of securities in our available for sale portfolio that were considered to be other than temporary. Net realized losses for both the three and nine months ended September 30, 2007 included a write down of \$23.9 million for our investment in the Goldman Sachs Global Alpha Hedge Fund PLC. Offsetting these net realized investment losses for the three and nine months ended September 30, 2007, the company recorded net realized gains from the sale of securities of \$21.2 million and \$25.5 million, respectively.

**Shareholders' Equity**

As of September 30, 2007, shareholders' equity was \$2.6 billion compared to \$2.2 billion reported as of December 31, 2006. Diluted book value per share was \$40.50 as of September 30, 2007 compared to \$35.26 as of December 31, 2006.

**Quarterly Dividend**

Allied World's board of directors has declared a quarterly dividend of \$0.18 per common share, a 20% increase over the \$0.15 per share dividend declared last quarter. The dividend will be payable on December 20, 2007 to shareholders of record as of the close of business on December 4, 2007.

**Conference Call**

Allied World will host a conference call on Thursday, November 8, 2007 at 8:30 a.m. (Eastern Time) to discuss its third 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](http://www.awac.com). In addition, the conference call can be accessed by dialing (866) 825-3308 (U.S. and Canada callers) or (617) 213-8062 (international callers) and entering the passcode 30306753 approximately ten minutes prior to the call.

Following the conclusion of the presentation, a replay of the call will be available through Thursday, November 22, 2007 by dialing (888) 286-8010 (U.S. and Canada callers) or (617) 801-6888 (international callers) and entering the passcode 74463683. In addition, the webcast will remain available online through Thursday, November 22, 2007 at [www.awac.com](http://www.awac.com).

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**Financial Supplement**

A financial supplement relating to the third quarter 2007 will be available at the Investor Relations section of the company's website at [www.awac.com](http://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 generally accepted accounting principles ( 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 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 net income 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

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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, through its insurance subsidiaries, is a global provider of insurance and reinsurance solutions, offering superior client service through offices in Bermuda, the United States and Europe. Our insurance subsidiaries are rated A (Excellent) by A.M. Best Company and A- (Strong) by Standard & Poor's. Our Bermuda and U.S. insurance subsidiaries are rated A2 (Good) by Moody's Investors Service. For further information on Allied World Assurance Company, please visit our website at [www.awac.com](http://www.awac.com).

**Cautionary Statement Regarding Forward-Looking Statements**

Any forward-looking statements made in this press release reflect our current views with respect to future events and financial performance and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements involve risks and uncertainties, which may cause actual results to differ materially from those set forth in these statements. For example, our forward-looking statements could be affected by pricing and policy term trends; increased competition; the impact of acts of terrorism and acts of war; greater frequency or severity of unpredictable catastrophic events; investigations of market practices and related settlement terms; negative rating agency actions; the adequacy of our loss reserves; the company or its subsidiaries becoming subject to significant income taxes in the United States or elsewhere; changes in regulations or tax laws; changes in the availability, cost or quality of reinsurance or retrocessional coverage; adverse general economic conditions; and judicial, legislative, political and other governmental developments, as well as management's response to these factors, and other factors identified in our filings with the U.S. Securities and Exchange Commission. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. 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.

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**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)

|   | Quarter Ended September 30, |                   | Nine Months Ended September 30, |                   |
|---|-----------------------------|-------------------|---------------------------------|-------------------|
|   | 2007                        | 2006              | 2007                            | 2006              |
| <b>Revenues:</b>  |                             |                   |                                 |                   |
| Gross premiums written  | \$ 276,253                  | \$ 362,478        | \$ 1,245,208                    | \$ 1,378,914      |
| Premiums ceded  | (56,956)                    | (64,462)          | (281,480)                       | (283,057)         |
| Net premiums written  | 219,297                     | 298,016           | 963,728                         | 1,095,857         |
| Change in unearned premiums   | 64,362                      | 19,743            | (90,384)                        | (163,638)         |
| Net premiums earned   | 283,659                     | 317,759           | 873,344                         | 932,219           |
| Net investment income   | 76,133                      | 61,407            | 222,718                         | 178,351           |
| Net realized investment losses  | (4,196)                     | (9,080)           | (12,161)                        | (24,488)          |
| <b>Total revenue</b>  | <b>355,596</b>              | <b>370,086</b>    | <b>1,083,901</b>                | <b>1,086,082</b>  |
| <b>Expenses:</b>  |                             |                   |                                 |                   |
| Net losses and loss expenses  | 173,246                     | 180,934           | 515,466                         | 566,738           |
| Acquisition costs   | 29,198                      | 37,785            | 90,266                          | 106,920           |
| General and administrative expenses                                     | 36,050                      | 25,640            | 103,685                         | 72,218            |
| Interest expense  | 9,481                       | 9,529             | 28,337                          | 23,056            |
| Foreign exchange gain   | (976)                       | (561)             | (412)                           | (491)             |
| <b>Total expenses</b>   | <b>246,999</b>              | <b>253,327</b>    | <b>737,342</b>                  | <b>768,441</b>    |
| Income before income taxes  | 108,597                     | 116,759           | 346,559                         | 317,641           |
| Income tax (recovery) expense   | (362)                       | 2,774             | 392                             | 3,164             |
| <b>NET INCOME</b>   | <b>\$ 108,959</b>           | <b>\$ 113,985</b> | <b>\$ 346,167</b>               | <b>\$ 314,477</b> |
| <b>PER SHARE DATA:</b>  |                             |                   |                                 |                   |
| Basic earnings per share  | \$ 1.80                     | \$ 1.95           | \$ 5.73                         | \$ 5.94           |
| Diluted earnings per share  | \$ 1.72                     | \$ 1.89           | \$ 5.51                         | \$ 5.76           |
| Weighted average common shares outstanding                              | 60,413,019                  | 58,376,307        | 60,381,867                      | 52,900,664        |
| Weighted average common shares and common share equivalents outstanding | 63,250,024                  | 60,451,643        | 62,808,186                      | 54,577,445        |
| Dividends declared per share  | \$ 0.15                     | \$                | \$ 0.45                         | \$                |

**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<br>September 30,<br>2007 | As of<br>December 31,<br>2006 |
|---|--------------------------------|-------------------------------|
| <b>ASSETS:</b>  |                                |                               |
| Fixed maturity investments available for sale, at fair value (amortized cost: 2007: \$5,984,929; 2006: \$5,188,379) | \$6,022,625                    | \$5,177,812                   |
| Other invested assets available for sale, at fair value (cost: 2007: \$280,696; 2006: \$245,657)                    | 310,715                        | 262,557                       |
| Total investments   | 6,333,340                      | 5,440,369                     |
| Cash and cash equivalents   | 329,862                        | 366,817                       |
| Restricted cash   | 46,903                         | 138,223                       |
| Securities lending collateral   | 795,486                        | 304,742                       |
| Insurance balances receivable   | 320,070                        | 304,261                       |
| Prepaid reinsurance   | 178,951                        | 159,719                       |
| Reinsurance recoverable   | 674,398                        | 689,105                       |
| Accrued investment income   | 44,223                         | 51,112                        |
| Deferred acquisition costs  | 123,932                        | 100,326                       |
| Intangible assets   | 3,920                          | 3,920                         |
| Balances receivable on sale of investments  | 7,951                          | 16,545                        |
| Net deferred tax assets   | 3,661                          | 5,094                         |
| Other assets  | 42,032                         | 40,347                        |
| <b>Total assets</b>   | <b>\$8,904,729</b>             | <b>\$7,620,580</b>            |
| <b>LIABILITIES:</b>   |                                |                               |
| Reserve for losses and loss expenses  | \$3,831,962                    | \$3,636,997                   |
| Unearned premiums   | 923,413                        | 813,797                       |
| Unearned ceding commissions   | 30,822                         | 23,914                        |
| Reinsurance balances payable  | 57,994                         | 82,212                        |
| Securities lending payable  | 795,486                        | 304,742                       |
| Balances due on purchase of investments   | 123,482                        |                               |
| Senior notes  | 498,655                        | 498,577                       |
| Accounts payable and accrued liabilities  | 30,140                         | 40,257                        |
| <b>Total liabilities</b>  | <b>\$6,291,954</b>             | <b>\$5,400,496</b>            |
| <b>SHAREHOLDERS EQUITY:</b>   |                                |                               |
| Common stock, par value \$0.03 per share, issued and outstanding 2007: 60,424,795 shares; 2006: 60,287,696 shares   | 1,812                          | 1,809                         |
| Additional paid-in capital  | 1,839,849                      | 1,822,607                     |
| Retained earnings   | 708,197                        | 389,204                       |

|   |             |             |
|---|-------------|-------------|
| Accumulated other comprehensive income: net unrealized gains on investments, net of tax | 62,917      | 6,464       |
| <b>Total shareholders equity</b>  | 2,612,775   | 2,220,084   |
| <b>Total liabilities and shareholders equity</b>  | \$8,904,729 | \$7,620,580 |

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

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

| <b>Quarter Ended September 30, 2007</b> | <b>Property</b> | <b>Casualty</b> | <b>Reinsurance</b> | <b>Total</b> |
|---|-----------------|-----------------|--------------------|--------------|
| Gross premiums written                  | \$ 60,192       | \$ 122,212      | \$ 93,849          | \$ 276,253   |
| Net premiums written                    | 32,400          | 92,917          | 93,980             | 219,297      |
| Net premiums earned                     | 44,246          | 114,977         | 124,436            | 283,659      |
| Net losses and loss expenses            | (29,271)        | (71,369)        | (72,606)           | (173,246)    |
| Acquisition costs                       | 811             | (2,927)         | (27,082)           | (29,198)     |
| General and administrative expenses     | (8,421)         | (17,876)        | (9,753)            | (36,050)     |
| Underwriting income                     | 7,365           | 22,805          | 14,995             | 45,165       |
| Net investment income                   |                 |                 |                    | 76,133       |
| Net realized investment losses          |                 |                 |                    | (4,196)      |
| Interest expense                        |                 |                 |                    | (9,481)      |
| Foreign exchange gain                   |                 |                 |                    | 976          |
| Income before income taxes              |                 |                 |                    | \$ 108,597   |

**GAAP Ratios:**

|  |        |       |       |       |
|--|--------|-------|-------|-------|
| Loss and loss expense ratio              | 66.2%  | 62.1% | 58.4% | 61.1% |
| Acquisition cost ratio                   | (1.8%) | 2.5%  | 21.8% | 10.3% |
| General and administrative expense ratio | 19.0%  | 15.6% | 7.8%  | 12.7% |
| Combined ratio                           | 83.4%  | 80.2% | 88.0% | 84.1% |

| <b>Quarter Ended September 30, 2006</b> | <b>Property</b> | <b>Casualty</b> | <b>Reinsurance</b> | <b>Total</b> |
|---|-----------------|-----------------|--------------------|--------------|
| Gross premiums written                  | \$ 88,150       | \$ 144,576      | \$ 129,752         | \$ 362,478   |
| Net premiums written                    | 40,855          | 127,893         | 129,268            | 298,016      |
| Net premiums earned                     | 46,576          | 135,186         | 135,997            | 317,759      |
| Net losses and loss expenses            | (28,917)        | (78,979)        | (73,038)           | (180,934)    |
| Acquisition costs                       | 373             | (7,301)         | (30,857)           | (37,785)     |
| General and administrative expenses     | (6,273)         | (12,894)        | (6,473)            | (25,640)     |
| Underwriting income                     | 11,759          | 36,012          | 25,629             | 73,400       |
| Net investment income                   |                 |                 |                    | 61,407       |
| Net realized investment losses          |                 |                 |                    | (9,080)      |
| Interest expense                        |                 |                 |                    | (9,529)      |
| Foreign exchange gain                   |                 |                 |                    | 561          |
| Income before income taxes              |                 |                 |                    | \$ 116,759   |

**GAAP Ratios:**



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|  |        |       |       |       |
|--|--------|-------|-------|-------|
| Loss and loss expense ratio              | 62.1%  | 58.4% | 53.7% | 56.9% |
| Acquisition cost ratio                   | (0.8%) | 5.4%  | 22.7% | 11.9% |
| General and administrative expense ratio | 13.5%  | 9.6%  | 4.8%  | 8.1%  |
| Combined ratio                           | 74.8%  | 73.4% | 81.2% | 76.9% |

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

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

| <b>Nine Months Ended September 30, 2007</b> | <b>Property</b> | <b>Casualty</b> | <b>Reinsurance</b> | <b>Total</b> |
|---|-----------------|-----------------|--------------------|--------------|
| Gross premiums written                      | \$ 318,520      | \$ 435,492      | \$ 491,196         | \$ 1,245,208 |
| Net premiums written                        | 137,479         | 335,182         | 491,067            | 963,728      |
| Net premiums earned                         | 137,055         | 363,101         | 373,188            | 873,344      |
| Net losses and loss expenses                | (70,285)        | (222,644)       | (222,537)          | (515,466)    |
| Acquisition costs                           | 374             | (13,998)        | (76,642)           | (90,266)     |
| General and administrative expenses         | (24,341)        | (49,894)        | (29,450)           | (103,685)    |
| Underwriting income                         | 42,803          | 76,565          | 44,559             | 163,927      |
| Net investment income                       |                 |                 |                    | 222,718      |
| Net realized investment losses              |                 |                 |                    | (12,161)     |
| Interest expense                            |                 |                 |                    | (28,337)     |
| Foreign exchange gain                       |                 |                 |                    | 412          |
| Income before income taxes                  |                 |                 |                    | \$ 346,559   |

**GAAP Ratios:**

|  |        |       |       |       |
|--|--------|-------|-------|-------|
| Loss and loss expense ratio              | 51.3%  | 61.3% | 59.6% | 59.0% |
| Acquisition cost ratio                   | (0.3%) | 3.9%  | 20.5% | 10.3% |
| General and administrative expense ratio | 17.8%  | 13.7% | 7.9%  | 11.9% |
| Combined ratio                           | 68.8%  | 78.9% | 88.0% | 81.2% |

| <b>Nine Months Ended September 30, 2006</b> | <b>Property</b> | <b>Casualty</b> | <b>Reinsurance</b> | <b>Total</b> |
|---|-----------------|-----------------|--------------------|--------------|
| Gross premiums written                      | \$ 374,830      | \$ 475,074      | \$ 529,010         | \$ 1,378,914 |
| Net premiums written                        | 152,808         | 414,812         | 528,237            | 1,095,857    |
| Net premiums earned                         | 141,633         | 400,488         | 390,098            | 932,219      |
| Net losses and loss expenses                | (86,965)        | (258,993)       | (220,780)          | (566,738)    |
| Acquisition costs                           | 2,631           | (23,575)        | (85,976)           | (106,920)    |
| General and administrative expenses         | (18,233)        | (35,873)        | (18,112)           | (72,218)     |
| Underwriting income                         | 39,066          | 82,047          | 65,230             | 186,343      |
| Net investment income                       |                 |                 |                    | 178,351      |
| Net realized investment losses              |                 |                 |                    | (24,488)     |
| Interest expense                            |                 |                 |                    | (23,056)     |
| Foreign exchange gain                       |                 |                 |                    | 491          |
| Income before income taxes                  |                 |                 |                    | \$ 317,641   |

**GAAP Ratios:**

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|  |        |       |       |       |
|--|--------|-------|-------|-------|
| Loss and loss expense ratio              | 61.4%  | 64.7% | 56.6% | 60.8% |
| Acquisition cost ratio                   | (1.9%) | 5.9%  | 22.0% | 11.5% |
| General and administrative expense ratio | 12.9%  | 8.9%  | 4.7%  | 7.7%  |
| Combined ratio                           | 72.4%  | 79.5% | 83.3% | 80.0% |

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**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)

|  | <b>Quarter Ended September 30,</b> |             | <b>Nine Months Ended September 30,</b> |             |
|--|------------------------------------|-------------|--|-------------|
|  | <b>2007</b>                        | <b>2006</b> | <b>2007</b>                            | <b>2006</b> |
| Net income   | \$ 108,959                         | \$ 113,985  | \$ 346,167                             | \$ 314,477  |
| Net realized investment losses                     | 4,196                              | 9,080       | 12,161                                 | 24,488      |
| Foreign exchange gain                              | (976)                              | (561)       | (412)                                  | (491)       |
| Operating income                                   | \$ 112,179                         | \$ 122,504  | \$ 357,916                             | \$ 338,474  |
| <b>Weighted average common shares outstanding:</b> |                                    |             |  |             |
| Basic  | 60,413,019                         | 58,376,307  | 60,381,867                             | 52,900,664  |
| Diluted  | 63,250,024                         | 60,451,643  | 62,808,186                             | 54,577,445  |
| <b>Basic per share data:</b>                       |                                    |             |  |             |
| Net income   | \$ 1.80                            | \$ 1.95     | \$ 5.73                                | \$ 5.94     |
| Net realized investment losses                     | 0.08                               | 0.16        | 0.20                                   | 0.47        |
| Foreign exchange gain                              | (0.02)                             | (0.01)      | (0.00)                                 | (0.01)      |
| Operating income                                   | \$ 1.86                            | \$ 2.10     | \$ 5.93                                | \$ 6.40     |
| <b>Diluted per share data</b>                      |                                    |             |  |             |
| Net income   | \$ 1.72                            | \$ 1.89     | \$ 5.51                                | \$ 5.76     |
| Net realized investment losses                     | 0.07                               | 0.15        | 0.19                                   | 0.45        |
| Foreign exchange gain                              | (0.02)                             | (0.01)      | (0.00)                                 | (0.01)      |
| Operating income                                   | \$ 1.77                            | \$ 2.03     | \$ 5.70                                | \$ 6.20     |

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**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)

|  | <b>As of<br/>September 30,<br/>2007</b> | <b>As of<br/>December 31,<br/>2006</b> |
|--|---|--|
| Price per share at period end                              | \$ 51.91                                | \$ 43.63                               |
| Total shareholders equity                                  | 2,612,775                               | 2,220,084                              |
| Basic common shares outstanding                            | 60,424,795                              | 60,287,696                             |
| Add: unvested restricted share units                       | 822,450                                 | 704,372                                |
| Add: Long-Term Incentive Plan (LTIP) share units           | 886,251                                 | 342,501                                |
| Add: dilutive options/warrants outstanding                 | 6,738,093                               | 6,695,990                              |
| Weighted average exercise price per share                  | \$ 33.61                                | \$ 33.02                               |
| Deduct: options bought back via treasury method            | (4,362,729)                             | (5,067,534)                            |
| <br>Common shares and common share equivalents outstanding | <br>64,508,860                          | <br>62,963,025                         |
| <br>Basic book value per common share                      | <br>\$ 43.24                            | <br>\$ 36.82                           |
| Diluted book value per common share                        | \$ 40.50                                | \$ 35.26                               |

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

|   | <b>Quarter Ended September 30,</b> |             | <b>Nine Months Ended September</b> |                 |
|---|------------------------------------|-------------|------------------------------------|-----------------|
|   | <b>2007</b>                        | <b>2006</b> | <b>2007</b>                        | <b>30, 2006</b> |
| Opening shareholders equity   | \$2,418,186                        | \$1,565,062 | \$2,220,084                        | \$1,420,266     |
| Add/deduct: accumulated other comprehensive loss/(income)                                     | 25,663                             | 83,144      | (6,464)                            | 25,508          |
| Adjusted opening shareholders equity  | 2,443,849                          | 1,648,206   | 2,213,620                          | 1,445,774       |
| Closing shareholders equity   | 2,612,775                          | 2,094,872   | 2,612,775                          | 2,094,872       |
| Deduct: accumulated other comprehensive income  | (62,917)                           | (3,447)     | (62,917)                           | (3,447)         |
| Adjusted closing shareholders equity  | 2,549,858                          | 2,091,425   | 2,549,858                          | 2,091,425       |
| Average shareholders equity   | \$2,496,854                        | \$1,869,816 | \$2,381,739                        | \$1,768,600     |
| Net income available to shareholders  | \$108,959                          | \$113,985   | \$346,167                          | \$314,477       |
| Annualized net income available to shareholders   | 435,836                            | 455,940     | 461,556                            | 419,303         |
| Annualized return on average shareholders equity net income available to shareholders         | 17.5%                              | 24.4%       | 19.4%                              | 23.7%           |
| Operating income available to shareholders  | \$112,179                          | \$122,504   | \$357,916                          | \$338,474       |
| Annualized operating income available to shareholders   | 448,716                            | 490,016     | 477,221                            | 451,299         |
| Annualized return on average shareholders equity - operating income available to shareholders | 18.0%                              | 26.2%       | 20.0%                              | 25.5%           |

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**Exhibit 99.2**

**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD**  
**3<sup>rd</sup> Quarter, 2007**

**Investor Contact:**  
**Keith Lennox**

*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.*

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

Any forward-looking statements made in this report reflect our current views with respect to future events and financial performance and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements involve risks and uncertainties, which may cause actual results to differ materially from those set forth in these statements. For example, our forward-looking statements could be affected by pricing and policy term trends; increased competition; the impact of acts of terrorism and acts of war; greater frequency or severity of unpredictable catastrophic events; investigations of market practices and related settlement terms; negative rating agency actions; the adequacy of our loss reserves; the company or its subsidiaries becoming subject to significant income taxes in the United States or elsewhere; changes in regulations or tax laws; changes in the availability, cost or quality of reinsurance or retrocessional coverage; adverse general economic conditions; and judicial, legislative, political and other governmental developments, as well as management's response to these factors, and other factors identified in our filings with the U.S. Securities and Exchange Commission. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. 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.

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**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, use 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 generally accepted accounting principles (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 25 for further details.

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**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD  
CONSOLIDATED FINANCIAL HIGHLIGHTS**

|   | THREE MONTHS ENDED    |            | NINE MONTHS ENDED     |              | Previous<br>Quarter<br>Change | Previous<br>Year to<br>Date<br>Change |
|---|-----------------------|------------|-----------------------|--------------|-------------------------------|---------------------------------------|
|   | SEPTEMBER 30,<br>2007 | 2006       | SEPTEMBER, 30<br>2007 | 2006         |                               |                                       |
| <b>HIGHLIGHTS</b> Gross                                   | \$ 276,253            | \$ 362,478 | \$ 1,245,208          | \$ 1,378,914 | (23.8%)                       | (9.7%)                                |
| premiums<br>written                                       |                       |            |                       |              |                               |                                       |
| Net premiums<br>written                                   | 219,297               | 298,016    | 963,728               | 1,095,857    | (26.4%)                       | (12.1%)                               |
| Net premiums<br>earned                                    | 283,659               | 317,759    | 873,344               | 932,219      | (10.7%)                       | (6.3%)                                |
| Net<br>investment<br>income                               | 76,133                | 61,407     | 222,718               | 178,351      | 24.0%                         | 24.9%                                 |
| Net income  | 108,959               | 113,985    | 346,167               | 314,477      | (4.4%)                        | 10.1%                                 |
| Operating<br>income                                       | 112,179               | 122,504    | 357,916               | 338,474      | (8.4%)                        | 5.7%                                  |
| Total<br>investments<br>and cash &<br>cash<br>equivalents | 6,710,105             | 5,862,515  | 6,710,105             | 5,862,515    | 14.5%                         | 14.5%                                 |
| Total assets  | 8,904,729             | 8,012,893  | 8,904,729             | 8,012,893    | 11.1%                         | 11.1%                                 |
| Total<br>shareholders<br>equity                           | 2,612,775             | 2,094,872  | 2,612,775             | 2,094,872    | 24.7%                         | 24.7%                                 |
| Cash flows<br>from operating<br>activities                | 229,699               | 248,956    | 618,811               | 667,402      | (7.7%)                        | (7.3%)                                |
| <br>  |                       |            |                       |              |                               |                                       |
| <b>PER SHARE<br/>AND SHARE<br/>DATA</b>                   |                       |            |                       |              |                               |                                       |
| Basic earnings<br>per share                               |                       |            |                       |              |                               |                                       |
| Net income  | \$ 1.80               | \$ 1.95    | \$ 5.73               | \$ 5.94      | (7.7%)                        | (3.5%)                                |
| Operating<br>income                                       | \$ 1.86               | \$ 2.10    | \$ 5.93               | \$ 6.40      | (11.4%)                       | (7.4%)                                |
| Diluted<br>earnings per<br>share                          |                       |            |                       |              |                               |                                       |
| Net income  | \$ 1.72               | \$ 1.89    | \$ 5.51               | \$ 5.76      | (9.0%)                        | (4.3%)                                |
| Operating<br>income                                       | \$ 1.77               | \$ 2.03    | \$ 5.70               | \$ 6.20      | (12.8%)                       | (8.1%)                                |
| Weighted<br>average                                       |                       |            |                       |              |                               |                                       |

|                                 |            |            |            |            |       |       |  |
|---------------------------------|------------|------------|------------|------------|-------|-------|--|
| common<br>shares<br>outstanding |            |            |            |            |       |       |  |
| Basic                           | 60,413,019 | 58,376,307 | 60,381,867 | 52,900,664 |       |       |  |
| Diluted                         | 63,250,024 | 60,451,643 | 62,808,186 | 54,577,445 |       |       |  |
| Book value                      | \$ 43.24   | \$ 34.75   | \$ 43.24   | \$ 34.75   | 24.4% | 24.4% |  |
| Diluted book<br>value           | \$ 40.50   | \$ 33.54   | \$ 40.50   | \$ 33.54   | 20.8% | 20.8% |  |

|                             |  |       |       |       |       |          |          |
|-----------------------------|--|-------|-------|-------|-------|----------|----------|
| <b>FINANCIAL<br/>RATIOS</b> | Return on<br>average equity<br>(ROAE), net<br>income | 17.5% | 24.4% | 19.4% | 23.7% | (6.9)pts | (4.3)pts |
|                             | ROAE,<br>operating<br>income                         | 18.0% | 26.2% | 20.0% | 25.5% | (8.2)pts | (5.5)pts |
|                             | Annualized<br>investment<br>book yield               | 4.7%  | 4.4%  | 4.7%  | 4.3%  | 0.3pts   | 0.4pts   |
|                             | Loss and loss<br>expense ratio                       | 61.1% | 56.9% | 59.0% | 60.8% | 4.2pts   | (1.8)pts |
|                             | Acquisition<br>cost ratio                            | 10.3% | 11.9% | 10.3% | 11.5% | (1.6)pts | (1.2)pts |
|                             | General and<br>administrative<br>expense ratio       | 12.7% | 8.1%  | 11.9% | 7.7%  | 4.6pts   | 4.2pts   |
|                             | Expense ratio  | 23.0% | 20.0% | 22.2% | 19.2% | 3.0pts   | 3.0pts   |
|                             | Combined<br>ratio                                    | 84.1% | 76.9% | 81.2% | 80.0% | 7.2pts   | 1.2pts   |

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

|                                     | <b>THREE<br/>MONTHS<br/>ENDED<br/>SEPTEMBER<br/>30, 2007</b> | <b>THREE<br/>MONTHS<br/>ENDED<br/>JUNE 30,<br/>2007</b> | <b>THREE<br/>MONTHS<br/>ENDED<br/>MARCH 31,<br/>2007</b> | <b>THREE<br/>MONTHS<br/>ENDED<br/>DECEMBER<br/>31, 2006</b> | <b>THREE<br/>MONTHS<br/>ENDED<br/>SEPTEMBER<br/>30, 2006</b> |
|-------------------------------------|--|---|--|---|--|
| <b>Revenues</b>                     |  |   |  |   |  |
| Gross premiums written              | \$ 276,253   | \$ 530,549  | \$ 438,406   | \$ 280,111  | \$ 362,478   |
| Net premiums written                | \$ 219,297   | \$ 386,587  | \$ 357,844   | \$ 210,739  | \$ 298,016   |
| Net premiums earned                 | \$ 283,659   | \$ 303,119  | \$ 286,566   | \$ 319,791  | \$ 317,759   |
| Net investment income               | 76,133   | 73,937  | 72,648   | 66,009  | 61,407   |
| Net realized investment losses      | (4,196)  | (1,481)   | (6,484)  | (4,190)   | (9,080)  |
| <b>Total revenues</b>               | <b>\$ 355,596</b>  | <b>\$ 375,575</b>                                       | <b>\$ 352,730</b>  | <b>\$ 381,610</b>   | <b>\$ 370,086</b>  |
| <b>Expenses</b>                     |  |   |  |   |  |
| Net losses and loss expenses:       |  |   |  |   |  |
| Current year                        | \$ 201,799   | \$ 208,643  | \$ 192,102   | \$ 215,456  | \$ 219,616   |
| Prior years                         | \$ (28,553)  | \$ (32,418)   | \$ (26,107)  | \$ (43,061)   | \$ (38,682)  |
| Total net losses and loss expenses  | 173,246  | 176,225   | 165,995  | 172,395   | 180,934  |
| Acquisition costs                   | 29,198   | 31,872  | 29,196   | 34,568  | 37,785   |
| General and administrative expenses | 36,050   | 34,432  | 33,203   | 33,856  | 25,640   |
| Foreign exchange (gain) loss        | (976)  | 532   | 32   | 1,092   | (561)  |
| Interest expense                    | 9,481  | 9,482   | 9,374  | 9,510   | 9,529  |
| <b>Total expenses</b>               | <b>\$ 246,999</b>  | <b>\$ 252,543</b>                                       | <b>\$ 237,800</b>  | <b>\$ 251,421</b>   | <b>\$ 253,327</b>  |
| <b>Income before income taxes</b>   | <b>\$ 108,597</b>  | <b>\$ 123,032</b>                                       | <b>\$ 114,930</b>  | <b>\$ 130,189</b>   | <b>\$ 116,759</b>  |
| Income tax (recovery) expense       | (362)  | (255)   | 1,009  | 1,827   | 2,774  |
| <b>Net income</b>                   | <b>\$ 108,959</b>  | <b>\$ 123,287</b>                                       | <b>\$ 113,921</b>  | <b>\$ 128,362</b>   | <b>\$ 113,985</b>  |
| <b>GAAP Ratios</b>                  |  |   |  |   |  |
| Loss and loss expense ratio         | 61.1%  | 58.1%   | 57.9%  | 53.9%   | 56.9%  |

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|  |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|
| Acquisition cost ratio                   | 10.3% | 10.5% | 10.2% | 10.8% | 11.9% |
| General and administrative expense ratio | 12.7% | 11.4% | 11.6% | 10.6% | 8.1%  |
| Expense ratio                            | 23.0% | 21.9% | 21.8% | 21.4% | 20.0% |
| Combined ratio                           | 84.1% | 80.0% | 79.7% | 75.3% | 76.9% |

**Per Share Data**

Basic earnings per share

|                  |    |      |    |      |    |      |    |      |    |      |
|------------------|----|------|----|------|----|------|----|------|----|------|
| Net income       | \$ | 1.80 | \$ | 2.04 | \$ | 1.89 | \$ | 2.13 | \$ | 1.95 |
| Operating income | \$ | 1.86 | \$ | 2.07 | \$ | 2.00 | \$ | 2.22 | \$ | 2.10 |

Diluted earnings per share

|                  |    |      |    |      |    |      |    |      |    |      |
|------------------|----|------|----|------|----|------|----|------|----|------|
| Net income       | \$ | 1.72 | \$ | 1.96 | \$ | 1.83 | \$ | 2.04 | \$ | 1.89 |
| Operating income | \$ | 1.77 | \$ | 1.99 | \$ | 1.94 | \$ | 2.12 | \$ | 2.03 |

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

|  | NINE MONTHS<br>ENDED<br>SEPTEMBER 30,<br>2007 | NINE MONTHS<br>ENDED<br>SEPTEMBER 30,<br>2006 |
|--|---|---|
| <b>Revenues</b>                          |   |   |
| Gross premiums written                   | \$ 1,245,208                                  | \$ 1,378,914                                  |
| Net premiums written                     | 963,728                                       | 1,095,857                                     |
| Net premiums earned                      | \$ 873,344                                    | \$ 932,219                                    |
| Net investment income                    | \$ 222,718                                    | 178,351                                       |
| Net realized investment losses           | \$ (12,161)                                   | (24,488)                                      |
| <b>Total revenues</b>                    | <b>\$ 1,083,901</b>                           | <b>\$ 1,086,082</b>                           |
| <b>Expenses</b>                          |   |   |
| Net losses and loss expenses:            |   |   |
| Current year                             | \$ 602,544                                    | \$ 634,394                                    |
| Prior years                              | (87,078)                                      | (67,656)                                      |
| Total net losses and loss expenses       | 515,466                                       | \$ 566,738                                    |
| Acquisition costs                        | 90,266  | 106,920                                       |
| General and administrative expenses      | 103,685                                       | 72,218  |
| Foreign exchange gain                    | (412)   | (491)   |
| Interest expense                         | 28,337  | 23,056  |
| <b>Total expenses</b>                    | <b>\$ 737,342</b>                             | <b>\$ 768,441</b>                             |
| <b>Income before income taxes</b>        | <b>\$ 346,559</b>                             | <b>\$ 317,641</b>                             |
| Income tax expense                       | 392   | 3,164   |
| <b>Net income</b>                        | <b>\$ 346,167</b>                             | <b>\$ 314,477</b>                             |
| <b>GAAP Ratios</b>                       |   |   |
| Loss and loss expense ratio              | 59.0%   | 60.8%   |
| Acquisition cost ratio                   | 10.3%   | 11.5%   |
| General and administrative expense ratio | 11.9%   | 7.7%  |
| Expense ratio                            | 22.2%   | 19.2%   |
| Combined ratio                           | 81.2%   | 80.0%   |

**Per Share Data**



|                            |    |      |    |      |
|----------------------------|----|------|----|------|
| Basic earnings per share   |    |      |    |      |
| Net income                 | \$ | 5.73 | \$ | 5.94 |
| Operating income           | \$ | 5.93 | \$ | 6.40 |
| Diluted earnings per share |    |      |    |      |
| Net income                 | \$ | 5.51 | \$ | 5.76 |
| Operating income           | \$ | 5.70 | \$ | 6.20 |

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**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD  
CONSOLIDATED PREMIUM DISTRIBUTION ANALYSIS    CURRENT QUARTER**

**THREE MONTHS ENDED SEPTEMBER 30, 2007**  
**Gross Premiums Written = \$276,253**

**THREE MONTHS ENDED SEPTEMBER 30, 2006**  
**Gross Premiums Written = \$362,478**

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**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD  
CONSOLIDATED PREMIUM DISTRIBUTION ANALYSIS YEAR TO DATE**

**NINE MONTHS ENDED SEPTEMBER 30, 2007**  
**Gross Premiums Written = \$1,245,208**

**NINE MONTHS ENDED SEPTEMBER 30, 2006**  
**Gross Premiums Written = \$1,378,914**

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**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD  
CONSOLIDATED SEGMENT RESULTS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007**

|  | <b>PROPERTY</b>  | <b>CASUALTY</b>   | <b>REINSURANCE</b> | <b>CONSOLIDATED<br/>TOTALS</b> |
|--|------------------|-------------------|--------------------|--------------------------------|
| <b>Revenues</b>                          |                  |                   |                    |                                |
| Gross premiums written                   | \$ 60,192        | \$ 122,212        | \$ 93,849          | \$ 276,253                     |
| Net premiums written                     | \$ 32,400        | \$ 92,917         | \$ 93,980          | \$ 219,297                     |
| Net premiums earned                      | \$ 44,246        | \$ 114,977        | \$ 124,436         | \$ 283,659                     |
| <b>Total revenues</b>                    | <b>\$ 44,246</b> | <b>\$ 114,977</b> | <b>\$ 124,436</b>  | <b>\$ 283,659</b>              |
| <b>Expenses</b>                          |                  |                   |                    |                                |
| Net losses and loss expenses:            |                  |                   |                    |                                |
| Current year                             | \$ 42,203        | \$ 83,773         | \$ 75,823          | \$ 201,799                     |
| Prior years                              | (12,932)         | (12,404)          | (3,217)            | (28,553)                       |
| Total net losses and loss expenses       | 29,271           | 71,369            | 72,606             | 173,246                        |
| Acquisition costs                        | (811)            | 2,927             | 27,082             | 29,198                         |
| General and administrative expenses      | 8,421            | 17,876            | 9,753              | 36,050                         |
| <b>Total expenses</b>                    | <b>\$ 36,881</b> | <b>\$ 92,172</b>  | <b>\$ 109,441</b>  | <b>\$ 238,494</b>              |
| <b>Underwriting Income</b>               | <b>\$ 7,365</b>  | <b>\$ 22,805</b>  | <b>\$ 14,995</b>   | <b>\$ 45,165</b>               |
| Net investment income                    |                  |                   |                    | 76,133                         |
| Net realized investment losses           |                  |                   |                    | (4,196)                        |
| Interest expense                         |                  |                   |                    | (9,481)                        |
| Foreign exchange gain                    |                  |                   |                    | 976                            |
| <b>Income before income taxes</b>        |                  |                   |                    | <b>\$ 108,597</b>              |
| <b>GAAP Ratios</b>                       |                  |                   |                    |                                |
| Loss and loss expense ratio              | 66.2%            | 62.1%             | 58.4%              | 61.1%                          |
| Acquisition cost ratio                   | (1.8%)           | 2.5%              | 21.8%              | 10.3%                          |
| General and administrative expense ratio | 19.0%            | 15.6%             | 7.8%               | 12.7%                          |
| Expense ratio                            | 17.2%            | 18.1%             | 29.6%              | 23.0%                          |
| Combined ratio                           | 83.4%            | 80.2%             | 88.0%              | 84.1%                          |

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**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD  
CONSOLIDATED SEGMENT RESULTS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006**

|  | <b>PROPERTY</b>  | <b>CASUALTY</b>   | <b>REINSURANCE</b> | <b>CONSOLIDATED<br/>TOTALS</b> |
|--|------------------|-------------------|--------------------|--------------------------------|
| <b>Revenues</b>                          |                  |                   |                    |                                |
| Gross premiums written                   | \$ 88,150        | \$ 144,576        | \$ 129,752         | \$ 362,478                     |
| Net premiums written                     | \$ 40,855        | \$ 127,893        | \$ 129,268         | \$ 298,016                     |
| Net premiums earned                      | \$ 46,576        | \$ 135,186        | \$ 135,997         | \$ 317,759                     |
| <b>Total revenues</b>                    | <b>\$ 46,576</b> | <b>\$ 135,186</b> | <b>\$ 135,997</b>  | <b>\$ 317,759</b>              |
| <b>Expenses</b>                          |                  |                   |                    |                                |
| Net losses and loss expenses:            |                  |                   |                    |                                |
| Current year                             | \$ 43,142        | \$ 99,994         | \$ 76,480          | \$ 219,616                     |
| Prior years                              | (14,225)         | (21,015)          | (3,442)            | (38,682)                       |
| Total net losses and loss expenses       | 28,917           | 78,979            | 73,038             | 180,934                        |
| Acquisition costs                        | (373)            | 7,301             | 30,857             | 37,785                         |
| General and administrative expenses      | 6,273            | 12,894            | 6,473              | 25,640                         |
| <b>Total expenses</b>                    | <b>\$ 34,817</b> | <b>\$ 99,174</b>  | <b>\$ 110,368</b>  | <b>\$ 244,359</b>              |
| <b>Underwriting Income</b>               | <b>\$ 11,759</b> | <b>\$ 36,012</b>  | <b>\$ 25,629</b>   | <b>\$ 73,400</b>               |
| Net investment income                    |                  |                   |                    | 61,407                         |
| Net realized investment losses           |                  |                   |                    | (9,080)                        |
| Interest expense                         |                  |                   |                    | (9,529)                        |
| Foreign exchange gain                    |                  |                   |                    | 561                            |
| <b>Income before income taxes</b>        |                  |                   |                    | <b>\$ 116,759</b>              |
| <b>GAAP Ratios</b>                       |                  |                   |                    |                                |
| Loss and loss expense ratio              | 62.1%            | 58.4%             | 53.7%              | 56.9%                          |
| Acquisition cost ratio                   | (0.8%)           | 5.4%              | 22.7%              | 11.9%                          |
| General and administrative expense ratio | 13.5%            | 9.6%              | 4.8%               | 8.1%                           |
| Expense ratio                            | 12.7%            | 15.0%             | 27.5%              | 20.0%                          |
| Combined ratio                           | 74.8%            | 73.4%             | 81.2%              | 76.9%                          |

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**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD**  
**CONSOLIDATED SEGMENT RESULTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007**

|  | <b>PROPERTY</b>   | <b>CASUALTY</b>   | <b>REINSURANCE</b> | <b>CONSOLIDATED<br/>TOTALS</b> |
|--|-------------------|-------------------|--------------------|--------------------------------|
| <b>Revenues</b>                          |                   |                   |                    |                                |
| Gross premiums written                   | \$ 318,520        | \$ 435,492        | \$ 491,196         | \$ 1,245,208                   |
| Net premiums written                     | \$ 137,479        | \$ 335,182        | \$ 491,067         | \$ 963,728                     |
| Net premiums earned                      | \$ 137,055        | \$ 363,101        | \$ 373,188         | \$ 873,344                     |
| <b>Total revenues</b>                    | <b>\$ 137,055</b> | <b>\$ 363,101</b> | <b>\$ 373,188</b>  | <b>\$ 873,344</b>              |
| <b>Expenses</b>                          |                   |                   |                    |                                |
| Net losses and loss expenses:            |                   |                   |                    |                                |
| Current year                             | \$ 107,581        | \$ 264,754        | \$ 230,209         | \$ 602,544                     |
| Prior years                              | (37,296)          | (42,110)          | (7,672)            | (87,078)                       |
| Total net losses and loss expenses       | 70,285            | 222,644           | 222,537            | 515,466                        |
| Acquisition costs                        | (374)             | 13,998            | 76,642             | 90,266                         |
| General and administrative expenses      | 24,341            | 49,894            | 29,450             | 103,685                        |
| <b>Total expenses</b>                    | <b>\$ 94,252</b>  | <b>\$ 286,536</b> | <b>\$ 328,629</b>  | <b>\$ 709,417</b>              |
| <b>Underwriting Income</b>               | <b>\$ 42,803</b>  | <b>\$ 76,565</b>  | <b>\$ 44,559</b>   | <b>\$ 163,927</b>              |
| Net investment income                    |                   |                   |                    | 222,718                        |
| Net realized investment losses           |                   |                   |                    | (12,161)                       |
| Interest expense                         |                   |                   |                    | (28,337)                       |
| Foreign exchange gain                    |                   |                   |                    | 412                            |
| <b>Income before income taxes</b>        |                   |                   |                    | <b>\$ 346,559</b>              |
| <b>GAAP Ratios</b>                       |                   |                   |                    |                                |
| Loss and loss expense ratio              | 51.3%             | 61.3%             | 59.6%              | 59.0%                          |
| Acquisition cost ratio                   | (0.3%)            | 3.9%              | 20.5%              | 10.3%                          |
| General and administrative expense ratio | 17.8%             | 13.7%             | 7.9%               | 11.9%                          |
| Expense ratio                            | 17.5%             | 17.6%             | 28.4%              | 22.2%                          |
| Combined ratio                           | 68.8%             | 78.9%             | 88.0%              | 81.2%                          |

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**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD**  
**CONSOLIDATED SEGMENT RESULTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006**

|  | <b>PROPERTY</b>   | <b>CASUALTY</b>   | <b>REINSURANCE</b> | <b>CONSOLIDATED<br/>TOTALS</b> |
|--|-------------------|-------------------|--------------------|--------------------------------|
| <b>Revenues</b>                          |                   |                   |                    |                                |
| Gross premiums written                   | \$ 374,830        | \$ 475,074        | \$ 529,010         | \$ 1,378,914                   |
| Net premiums written                     | \$ 152,808        | \$ 414,812        | \$ 528,237         | \$ 1,095,857                   |
| Net premiums earned                      | \$ 141,633        | \$ 400,488        | \$ 390,098         | \$ 932,219                     |
| <b>Total revenues</b>                    | <b>\$ 141,633</b> | <b>\$ 400,488</b> | <b>\$ 390,098</b>  | <b>\$ 932,219</b>              |
| <b>Expenses</b>                          |                   |                   |                    |                                |
| Net losses and loss expenses:            |                   |                   |                    |                                |
| Current year                             | \$ 107,135        | \$ 296,203        | \$ 231,056         | \$ 634,394                     |
| Prior years                              | (20,170)          | (37,210)          | (10,276)           | (67,656)                       |
| Total net losses and loss expenses       | \$ 86,965         | \$ 258,993        | \$ 220,780         | 566,738                        |
| Acquisition costs                        | (2,631)           | 23,575            | 85,976             | 106,920                        |
| General and administrative expenses      | 18,233            | 35,873            | 18,112             | 72,218                         |
| <b>Total expenses</b>                    | <b>\$ 102,567</b> | <b>\$ 318,441</b> | <b>\$ 324,868</b>  | <b>\$ 745,876</b>              |
| <b>Underwriting Income</b>               | <b>\$ 39,066</b>  | <b>\$ 82,047</b>  | <b>\$ 65,230</b>   | <b>\$ 186,343</b>              |
| Net investment income                    |                   |                   |                    | 178,351                        |
| Net realized investment losses           |                   |                   |                    | (24,488)                       |
| Interest expense                         |                   |                   |                    | (23,056)                       |
| Foreign exchange gain                    |                   |                   |                    | 491                            |
| <b>Income before income taxes</b>        |                   |                   |                    | <b>\$ 317,641</b>              |
| <b>GAAP Ratios</b>                       |                   |                   |                    |                                |
| Loss and loss expense ratio              | 61.4%             | 64.7%             | 56.6%              | 60.8%                          |
| Acquisition cost ratio                   | (1.9%)            | 5.9%              | 22.0%              | 11.5%                          |
| General and administrative expense ratio | 12.9%             | 8.9%              | 4.7%               | 7.7%                           |
| Expense ratio                            | 11.0%             | 14.8%             | 26.7%              | 19.2%                          |
| Combined ratio                           | 72.4%             | 79.5%             | 83.3%              | 80.0%                          |

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

|   | <b>SEPTEMBER 30,<br/>2007</b> | <b>DECEMBER 31,<br/>2006</b> |
|---|-------------------------------|------------------------------|
| <b>ASSETS</b>   |                               |                              |
| Fixed maturity investments available for sale, at fair value<br>(amortized cost: 2007: \$5,984,929;<br>2006: \$5,188,379) | \$ 6,022,625                  | \$ 5,177,812                 |
| Other invested assets available for sale, at fair value (cost: 2007:<br>\$280,696; 2006: \$245,657)                       | 310,715                       | 262,557                      |
| Total investments   | 6,333,340                     | 5,440,369                    |
| Cash and cash equivalents   | 329,862                       | 366,817                      |
| Restricted cash   | 46,903                        | 138,223                      |
| Securities lending collateral   | 795,486                       | 304,742                      |
| Insurance balances receivable   | 320,070                       | 304,261                      |
| Prepaid reinsurance   | 178,951                       | 159,719                      |
| Reinsurance recoverable   | 674,398                       | 689,105                      |
| Accrued investment income   | 44,223                        | 51,112                       |
| Deferred acquisition costs  | 123,932                       | 100,326                      |
| Intangible assets   | 3,920                         | 3,920                        |
| Balances receivable on sale of investments  | 7,951                         | 16,545                       |
| Net deferred tax assets   | 3,661                         | 5,094                        |
| Other assets  | 42,032                        | 40,347                       |
| <b>TOTAL ASSETS</b>   | <b>\$ 8,904,729</b>           | <b>\$ 7,620,580</b>          |
| <b>LIABILITIES</b>  |                               |                              |
| Reserve for losses and loss expenses  | \$ 3,831,962                  | \$ 3,636,997                 |
| Unearned premiums   | 923,413                       | 813,797                      |
| Unearned ceding commissions   | 30,822                        | 23,914                       |
| Reinsurance balances payable  | 57,994                        | 82,212                       |
| Securities lending payable  | 795,486                       | 304,742                      |
| Balances due on purchase of investments   | 123,482                       |                              |
| Senior notes  | 498,655                       | 498,577                      |
| Accounts payable and accrued liabilities  | 30,140                        | 40,257                       |
| <b>TOTAL LIABILITIES</b>  | <b>\$ 6,291,954</b>           | <b>\$ 5,400,496</b>          |
| <b>SHAREHOLDERS EQUITY</b>  |                               |                              |
| Common shares, par value \$0.03 per share: 60,424,795 issued<br>and outstanding (2006 - 60,287,696)                       | \$ 1,812                      | \$ 1,809                     |
| Additional paid-in capital  | 1,839,849                     | 1,822,607                    |
| Retained earnings   | 708,197                       | 389,204                      |
| Accumulated other comprehensive income:<br>net unrealized gains on investments, net of tax                                | 62,917                        | 6,464                        |



|  |    |           |    |           |
|--|----|-----------|----|-----------|
| <b>TOTAL SHAREHOLDERS EQUITY</b>                 | \$ | 2,612,775 | \$ | 2,220,084 |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b> | \$ | 8,904,729 | \$ | 7,620,580 |
| Book value per share                             | \$ | 43.24     | \$ | 36.82     |
| Diluted book value per share                     |    | 40.50     |    | 35.26     |

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

|                                       | <b>SEPTEMBER 30,<br/>2007<br/>FAIR MARKET<br/>VALUE</b> |        | <b>JUNE 30, 2007<br/>FAIR MARKET<br/>VALUE</b> |        | <b>MARCH 31, 2007<br/>FAIR MARKET<br/>VALUE</b> |        | <b>DECEMBER 31,<br/>2006<br/>FAIR MARKET<br/>VALUE</b> |        | <b>SEPTEMBER 30,<br/>2006<br/>FAIR MARKET<br/>VALUE</b> |        |
|---------------------------------------|---|--------|--|--------|---|--------|--|--------|---|--------|
| <b>MARKET VALUE</b>                   |   |        |  |        |   |        |  |        |   |        |
| Fixed maturities                      |   |        |  |        |   |        |  |        |   |        |
| Available for sale                    | \$ 6,022,625  | 95.1%  | \$ 5,689,348                                   | 96.2%  | \$ 5,407,813                                    | 95.3%  | \$ 5,177,812   | 95.2%  | \$ 5,283,799  | 95.4%  |
| Other invested                        |   |        |  |        |   |        |  |        |   |        |
| Assets available                      |   |        |  |        |   |        |  |        |   |        |
| for sale                              | 310,715   | 4.9%   | 227,173  | 3.8%   | 263,993   | 4.7%   | 262,557  | 4.8%   | 256,997   | 4.0%   |
| Total                                 | \$ 6,333,340  | 100.0% | \$ 5,916,521                                   | 100.0% | \$ 5,671,806                                    | 100.0% | \$ 5,440,369   | 100.0% | \$ 5,540,796  | 100.0% |
| <b>ASSET LOCATION</b>                 |   |        |  |        |   |        |  |        |   |        |
| <b>MARKET VALUE</b>                   |   |        |  |        |   |        |  |        |   |        |
| U.S. government                       |   |        |  |        |   |        |  |        |   |        |
| and agencies                          | \$ 2,409,398  | 35.9%  | \$ 2,062,352                                   | 33.1%  | \$ 1,939,024                                    | 31.5%  | \$ 1,700,052   | 28.6%  | \$ 2,412,080  | 41.1%  |
| Non-U.S.                              |   |        |  |        |   |        |  |        |   |        |
| government                            |   |        |  |        |   |        |  |        |   |        |
| securities                            | 112,680   | 1.7%   | 105,397  | 1.7%   | 100,064   | 1.6%   | 97,319   | 1.6%   | 99,504  | 1.7%   |
| Corporate                             |   |        |  |        |   |        |  |        |   |        |
| securities                            | 1,250,990   | 18.6%  | 1,191,679                                      | 19.1%  | 1,242,895                                       | 20.2%  | 1,318,136  | 22.2%  | 1,057,457   | 18.0%  |
| Mortgage-backed                       |   |        |  |        |   |        |  |        |   |        |
| securities                            | 2,098,494   | 31.3%  | 2,123,124                                      | 34.0%  | 1,897,086                                       | 30.8%  | 1,823,907  | 30.7%  | 1,456,789   | 24.9%  |
| Asset-backed                          |   |        |  |        |   |        |  |        |   |        |
| securities                            | 151,063   | 2.3%   | 206,796  | 3.3%   | 228,744   | 3.7%   | 238,398  | 3.9%   | 257,969   | 4.4%   |
| Fixed income                          |   |        |  |        |   |        |  |        |   |        |
| sub-total                             | 6,022,625   | 89.8%  | 5,689,348                                      | 91.2%  | 5,407,813                                       | 87.8%  | 5,177,812  | 87.0%  | 5,283,799   | 90.1%  |
| Global high-yield                     |   |        |  |        |   |        |  |        |   |        |
| and fund                              | 80,765  | 1.2%   | 34,142   | 0.5%   | 33,968  | 0.6%   | 33,031   | 0.6%   | 31,724  | 0.5%   |
| Hedge funds                           | 229,950   | 3.4%   | 193,031  | 3.1%   | 230,025   | 3.7%   | 229,526  | 3.9%   | 225,273   | 3.9%   |
| Cash & cash                           |   |        |  |        |   |        |  |        |   |        |
| equivalents                           | 376,765   | 5.6%   | 322,467  | 5.2%   | 489,097   | 7.9%   | 505,040  | 8.5%   | 321,719   | 5.5%   |
| Total                                 | \$ 6,710,105  | 100.0% | \$ 6,238,988                                   | 100.0% | \$ 6,160,903                                    | 100.0% | \$ 5,945,409   | 100.0% | \$ 5,862,515  | 100.0% |
| <b>CREDIT QUALITY BY MARKET VALUE</b> |   |        |  |        |   |        |  |        |   |        |
|                                       | \$ 2,409,398  | 40.0%  | \$ 2,062,351                                   | 36.3%  | \$ 1,939,024                                    | 35.9%  | \$ 1,700,052   | 32.8%  | \$ 2,412,080  | 45.7%  |

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|                                 |              |        |              |        |              |        |              |        |              |        |
|---------------------------------|--------------|--------|--------------|--------|--------------|--------|--------------|--------|--------------|--------|
| U.S. government<br>and agencies |              |        |              |        |              |        |              |        |              |        |
| AAA/Aaa                         | 2,580,781    | 42.8%  | 2,605,371    | 45.8%  | 2,416,429    | 44.7%  | 2,426,331    | 46.9%  | 2,005,127    | 37.9%  |
| AA/Aa                           | 450,219      | 7.5%   | 370,794      | 6.5%   | 377,225      | 7.0%   | 306,242      | 5.9%   | 274,377      | 5.2%   |
| A                               | 533,924      | 8.9%   | 609,453      | 10.7%  | 629,368      | 11.6%  | 699,267      | 13.5%  | 546,204      | 10.3%  |
| B/Baa                           | 48,303       | 0.8%   | 41,379       | 0.7%   | 45,767       | 0.8%   | 45,920       | 0.9%   | 46,011       | 0.9%   |
| Total                           | \$ 6,022,625 | 100.0% | \$ 5,689,348 | 100.0% | \$ 5,407,813 | 100.0% | \$ 5,177,812 | 100.0% | \$ 5,283,799 | 100.0% |

**STATISTICS**

|  |          |          |          |          |          |
|--|----------|----------|----------|----------|----------|
| Annualized book<br>yield, year to date | 4.7%     | 4.7%     | 4.7%     | 4.5%     | 4.3%     |
| Duration                               | 3.2years | 3.0years | 2.9years | 2.8years | 3.0years |
| Average credit<br>quality (S&P)        | AA       | AA       | AA       | AA       | AA       |

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**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD  
RESERVES FOR LOSSES AND LOSS EXPENSES**

**AT SEPTEMBER 30, 2007**

|   | <b>PROPERTY</b>   | <b>CASUALTY</b>     | <b>REINSURANCE</b> | <b>CONSOLIDATED<br/>TOTAL</b> |
|---|-------------------|---------------------|--------------------|-------------------------------|
| Case reserves (net of reinsurance recoverable)              | \$ 250,052        | \$ 229,146          | \$ 211,262         | \$ 690,460                    |
| IBNR (net of reinsurance recoverable)                       | 125,203           | 1,602,733           | 739,168            | 2,467,104                     |
| <b>Total</b>  | <b>\$ 375,255</b> | <b>\$ 1,831,879</b> | <b>\$ 950,430</b>  | <b>\$ 3,157,564</b>           |
| <b>IBNR/Total reserves (net of reinsurance recoverable)</b> | <b>33.4%</b>      | <b>87.5%</b>        | <b>77.8%</b>       | <b>78.1%</b>                  |

**AT DECEMBER 31, 2006**

|   | <b>PROPERTY</b>   | <b>CASUALTY</b>     | <b>REINSURANCE</b> | <b>CONSOLIDATED<br/>TOTAL</b> |
|---|-------------------|---------------------|--------------------|-------------------------------|
| Case reserves (net of reinsurance recoverable)              | \$ 284,284        | \$ 149,619          | \$ 197,366         | \$ 631,269                    |
| IBNR (net of reinsurance recoverable)                       | 139,703           | 1,541,549           | 635,371            | 2,316,623                     |
| <b>Total</b>  | <b>\$ 423,987</b> | <b>\$ 1,691,168</b> | <b>\$ 832,737</b>  | <b>\$ 2,947,892</b>           |
| <b>IBNR/Total reserves (net of reinsurance recoverable)</b> | <b>32.9%</b>      | <b>91.2%</b>        | <b>76.3%</b>       | <b>78.6%</b>                  |

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**ALLIED WORLD ASSURANCE COMPANY HOLDINGS, LTD  
CAPITAL STRUCTURE AND LEVERAGE RATIOS**

|  | <b>SEPTEMBER<br/>30,<br/>2007</b> | <b>JUNE 30,<br/>2007</b> | <b>MARCH<br/>31,<br/>2007</b> | <b>DECEMBER<br/>31,<br/>2006</b> | <b>SEPTEMBER<br/>30,<br/>2006</b> |
|--|-----------------------------------|--------------------------|-------------------------------|----------------------------------|-----------------------------------|
| Senior notes/long-term debt  | \$ 498,655                        | \$ 498,629               | \$ 498,602                    | \$ 498,577                       | \$ 498,543                        |
| Shareholders equity  | 2,612,775                         | 2,418,186                | 2,355,978                     | 2,220,084                        | 2,094,872                         |
| Total capitalization   | \$ 3,111,430                      | \$ 2,916,815             | \$ 2,854,580                  | \$ 2,718,661                     | \$ 2,593,415                      |
| <b>Leverage ratios</b>   |                                   |                          |                               |                                  |                                   |
| <i>Debt to total capitalization</i>  | <i>16.0%</i>                      | <i>17.1%</i>             | <i>17.5%</i>                  | <i>18.3%</i>                     | <i>19.2%</i>                      |
| Closing shareholders equity  | \$ 2,612,775                      | \$ 2,418,186             | \$ 2,355,978                  | \$ 2,220,084                     | \$ 2,094,872                      |
| Deduct/add: accumulated other comprehensive (income)/loss                                | (62,917)                          | 25,663                   | (31,481)                      | (6,464)                          | (3,447)                           |
| Adjusted shareholders equity   | \$ 2,549,858                      | \$ 2,443,849             | \$ 2,324,497                  | \$ 2,213,620                     | \$ 2,091,425                      |
| Net premiums written (trailing 12 months)  | \$ 1,174,467                      | \$ 1,253,186             | \$ 1,236,937                  | \$ 1,306,596                     | \$ 1,309,428                      |
| <i>Net premiums written (trailing 12 months) to adjusted shareholders equity</i>         | <i>0.46</i>                       | <i>0.51</i>              | <i>0.53</i>                   | <i>0.59</i>                      | <i>0.63</i>                       |
| Total investments and cash & cash equivalents  | \$ 6,710,105                      | \$ 6,238,988             | \$ 6,160,903                  | \$ 5,945,409                     | \$ 5,862,515                      |
| <i>Total investments and cash &amp; cash equivalents to adjusted shareholders equity</i> | <i>2.63</i>                       | <i>2.55</i>              | <i>2.65</i>                   | <i>2.69</i>                      | <i>2.80</i>                       |
| Reserve for losses and loss expenses   | 3,831,962                         | 3,743,680                | 3,663,224                     | 3,636,997                        | 3,586,964                         |
| Deduct: reinsurance recoverable  | (674,398)                         | (679,198)                | (668,050)                     | (689,105)                        | (688,066)                         |
| Net reserve for losses and loss expenses   | 3,157,564                         | 3,064,482                | 2,995,174                     | 2,947,892                        | 2,898,898                         |
| <i>Net reserve for losses and loss expenses to adjusted shareholders equity</i>          | <i>1.24</i>                       | <i>1.25</i>              | <i>1.29</i>                   | <i>1.33</i>                      | <i>1.39</i>                       |



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

|                                | <b>THREE<br/>MONTHS<br/>ENDED<br/>SEPTEMBER<br/>30, 2007</b> | <b>THREE<br/>MONTHS<br/>ENDED<br/>JUNE 30, 2007</b> | <b>THREE<br/>MONTHS<br/>ENDED<br/>MARCH 31,<br/>2007</b> | <b>THREE<br/>MONTHS<br/>ENDED<br/>DECEMBER<br/>31, 2006</b> | <b>THREE<br/>MONTHS<br/>ENDED<br/>SEPTEMBER<br/>30, 2006</b> |
|--------------------------------|--|---|--|---|--|
| Net income                     | \$ 108,959   | \$ 123,287  | \$ 113,921   | \$ 128,362  | \$ 113,985   |
| Add:                           |  |   |  |   |  |
| Net realized investment losses | 4,196  | 1,481   | 6,484  | 4,190   | 9,080  |
| Foreign exchange (gain) loss   | (976)  | 532   | 32   | 1,092   | (561)  |
| Operating income               | \$ 112,179   | \$ 125,300  | \$ 120,437   | \$ 133,644  | \$ 122,504   |

**Weighted average common shares outstanding**

|         |            |            |            |            |            |
|---------|------------|------------|------------|------------|------------|
| Basic   | 60,413,019 | 60,397,591 | 60,333,209 | 60,284,459 | 58,376,307 |
| Diluted | 63,250,024 | 62,874,235 | 62,207,941 | 62,963,243 | 60,451,643 |

**Basic per share data**

|                                |         |         |         |         |         |
|--------------------------------|---------|---------|---------|---------|---------|
| Net income                     | \$ 1.80 | \$ 2.04 | \$ 1.89 | \$ 2.13 | \$ 1.95 |
| Add:                           |         |         |         |         |         |
| Net realized investment losses | 0.08    | 0.02    | 0.11    | 0.07    | 0.16    |
| Foreign exchange (gain) loss   | (0.02)  | 0.01    |         | 0.02    | (0.01)  |
| Operating income               | \$ 1.86 | \$ 2.07 | \$ 2.00 | \$ 2.22 | \$ 2.10 |

**Diluted per share data**

|                                |         |         |         |         |         |
|--------------------------------|---------|---------|---------|---------|---------|
| Net income                     | \$ 1.72 | \$ 1.96 | \$ 1.83 | \$ 2.04 | \$ 1.89 |
| Add:                           |         |         |         |         |         |
| Net realized investment losses | 0.07    | 0.02    | 0.11    | 0.06    | 0.15    |
| Foreign exchange (gain) loss   | (0.02)  | 0.01    |         | 0.02    | (0.01)  |
| Operating income               | \$ 1.77 | \$ 1.99 | \$ 1.94 | \$ 2.12 | \$ 2.03 |





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

|   | <b>NINE MONTHS<br/>ENDED<br/>SEPTEMBER 30,<br/>2007</b> | <b>NINE MONTHS<br/>ENDED<br/>SEPTEMBER 30,<br/>2006</b> |
|---|---|---|
| Net income  | \$ 346,167  | \$ 314,477  |
| Add:  |   |   |
| Net realized investment losses                    | 12,161  | 24,488  |
| Foreign exchange gain                             | (412)   | (491)   |
| Operating income                                  | \$ 357,916  | \$ 338,474  |
| <b>Weighted average common shares outstanding</b> |   |   |
| Basic   | 60,381,867  | 52,900,664  |
| Diluted   | 62,808,186  | 54,577,445  |
| <b>Basic per share data</b>                       |   |   |
| Net income  | \$ 5.73   | \$ 5.94   |
| Add:  |   |   |
| Net realized investment losses                    | 0.20  | 0.47  |
| Foreign exchange gain                             | (0.00)  | (0.01)  |
| Operating income                                  | \$ 5.93   | \$ 6.40   |
| <b>Diluted per share data</b>                     |   |   |
| Net income  | \$ 5.51   | \$ 5.76   |
| Add:  |   |   |
| Net realized investment losses                    | 0.19  | 0.45  |
| Foreign exchange gain                             | (0.00)  | (0.01)  |
| Operating income                                  | \$ 5.70   | \$ 6.20   |

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

|   | <b>THREE<br/>MONTHS<br/>ENDED<br/>SEPTEMBER<br/>30, 2007</b> | <b>THREE<br/>MONTHS<br/>ENDED<br/>JUNE 30,<br/>2007</b> | <b>THREE<br/>MONTHS<br/>ENDED<br/>MARCH 31,<br/>2007</b> | <b>THREE<br/>MONTHS<br/>ENDED<br/>DECEMBER<br/>31, 2006</b> | <b>THREE<br/>MONTHS<br/>ENDED<br/>SEPTEMBER<br/>30, 2006</b> |
|---|--|---|--|---|--|
| Opening shareholders equity   | \$ 2,418,186   | \$ 2,355,978  | \$ 2,220,084   | \$ 2,094,872  | \$ 1,565,062   |
| Add/deduct: accumulated other comprehensive loss/(income)                             | 25,663   | (31,481)  | (6,464)  | (3,447)   | 83,144   |
| Adjusted opening shareholders equity  | \$ 2,443,849   | \$ 2,324,497  | \$ 2,213,620   | \$ 2,091,425  | \$ 1,648,206   |
| Closing shareholders equity   | \$ 2,612,775   | \$ 2,418,186  | \$ 2,355,978   | \$ 2,220,084  | \$ 2,094,872   |
| Deduct/add: accumulated other comprehensive (income)/loss                             | (62,917)   | 25,663  | (31,481)   | (6,464)   | (3,447)  |
| Adjusted closing shareholders equity  | \$ 2,549,858   | \$ 2,443,849  | \$ 2,324,497   | \$ 2,213,620  | \$ 2,091,425   |
| Average shareholders equity   | \$ 2,496,854   | \$ 2,384,173  | \$ 2,269,059   | \$ 2,152,523  | \$ 1,869,816   |
| Net income available to shareholders  | \$ 108,959   | \$ 123,287  | \$ 113,921   | \$ 128,362  | \$ 113,985   |
| Annualized net income available to shareholders                                       | 435,836  | 493,148   | 455,684  | 513,448   | 455,940  |
| Annualized return on average shareholders equity net income available to shareholders | 17.5%  | 20.7%   | 20.1%  | 23.9%   | 24.4%  |
| Operating income available to shareholders  | \$ 112,179   | \$ 125,300  | \$ 120,437   | \$ 133,644  | \$ 122,504   |
| Annualized operating income available to shareholders                                 | 448,716  | 501,200   | 481,748  | 534,576   | 490,016  |
| Annualized return on average shareholders   | 18.0%  | 21.0%   | 21.2%  | 24.8%   | 26.2%  |

equity operating income  
available to shareholders

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

|   | <b>NINE MONTHS<br/>ENDED<br/>SEPTEMBER 30,<br/>2007</b> | <b>NINE MONTHS<br/>ENDED<br/>SEPTEMBER 30,<br/>2006</b> |
|---|---|---|
| Opening shareholders equity   | \$ 2,220,084  | \$ 1,420,266  |
| Deduct/add: accumulated other comprehensive (income)/loss                                   | (6,464)   | 25,508  |
| Adjusted opening shareholders equity  | \$ 2,213,620  | \$ 1,445,774  |
| Closing shareholders equity   | \$ 2,612,775  | \$ 2,094,872  |
| Deduct: accumulated other comprehensive income  | (62,917)  | (3,447)   |
| Adjusted closing shareholders equity  | \$ 2,549,858  | \$ 2,091,425  |
| Average shareholders equity   | \$ 2,381,739  | \$ 1,768,600  |
| Net income available to shareholders  | \$ 346,167  | \$ 314,477  |
| Annualized net income available to shareholders   | 461,556   | 419,303   |
| Annualized return on average shareholders equity net income available to shareholders       | 19.4%   | 23.7%   |
| Operating income available to shareholders  | \$ 357,916  | \$ 338,474  |
| Annualized operating income available to shareholders                                       | 477,221   | 451,299   |
| Annualized return on average shareholders equity operating income available to shareholders | 20.0%   | 25.5%   |

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

|  | <b>SEPTEMBER<br/>30,<br/>2007</b> | <b>DECEMBER<br/>31,<br/>2006</b> | <b>SEPTEMBER<br/>30,<br/>2006</b> |
|--|-----------------------------------|----------------------------------|-----------------------------------|
| Price per share at period end                          | \$ 51.91                          | \$ 43.63                         | \$ 40.40                          |
| Total shareholders equity                              | 2,612,775                         | 2,220,084                        | 2,094,872                         |
| Basic common shares outstanding                        | 60,424,795                        | 60,287,696                       | 60,283,040                        |
| Add: unvested restricted share units                   | 822,450                           | 704,372                          | 711,038                           |
| Add: Long-Term Incentive Plan (LTIP) share units       | 886,251                           | 342,501                          | 228,334                           |
| Add: dilutive options/warrants outstanding             | 6,738,093                         | 6,695,990                        | 6,704,402                         |
| Weighted average exercise price per share              | \$ 33.61                          | \$ 33.02                         | \$ 33.00                          |
| Deduct: options bought back via treasury method        | (4,362,729)                       | (5,067,534)                      | (5,476,585)                       |
| <br>   |                                   |                                  |                                   |
| Common shares and common share equivalents outstanding | 64,508,860                        | 62,963,025                       | 62,450,229                        |
| <br>   |                                   |                                  |                                   |
| Basic book value per common share                      | \$ 43.24                          | \$ 36.82                         | \$ 34.75                          |
| Diluted book value per common share                    | \$ 40.50                          | \$ 35.26                         | \$ 33.54                          |

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

|   | <b>THREE<br/>MONTHS<br/>ENDED<br/>SEPTEMBER<br/>30, 2007</b> | <b>THREE<br/>MONTHS<br/>ENDED<br/>SEPTEMBER<br/>30, 2006</b> | <b>NINE<br/>MONTHS<br/>ENDED<br/>SEPTEMBER<br/>30, 2007</b> | <b>NINE<br/>MONTHS<br/>ENDED<br/>SEPTEMBER<br/>30, 2006</b> |
|---|--|--|---|---|
| Net investment income   | 76,133   | 61,407   | 222,718   | 178,351   |
| (Add)/deduct: annual and non-recurring items                  |  | (119)  | 2,062   | 11,689  |
| Net investment income, recurring                              | 76,133   | 61,526   | 220,656   | 166,662   |
| Annualized net investment income, recurring                   | 304,532  | 246,104  | 294,208   | 222,216   |
| (Deduct)/add: annual and non-recurring items                  |  | (119)  | 2,062   | 11,689  |
| Normalized net investment income                              | 304,532  | 245,985  | 296,270   | 233,905   |
| Fixed maturity investments available for sale, amortized cost | 5,737,857  | 4,907,653  | 5,188,379   | 4,442,040   |
| Other invested assets, available for sale, cost               | 202,016  | 247,975  | 245,657   | 270,138   |
| Cash and cash equivalents                                     | 270,571  | 223,602  | 366,817   | 172,379   |
| Restricted cash   | 51,896   | 13,620   | 138,223   | 41,788  |
| Balances receivable on sale of investments                    | 53,089   | 2,433  | 16,545  | 3,633   |
| Balances due on purchase of investments                       | (21)   | (76,779)   |   |   |
| Opening aggregate invested assets                             | 6,315,408  | 5,318,504  | 5,955,621   | 4,929,978   |
| Fixed maturity investments available for sale, amortized cost | 5,984,929  | 5,289,411  | 5,984,929   | 5,289,411   |
| Other invested assets, available for sale, cost               | 280,696  | 246,854  | 280,696   | 246,854   |
| Cash and cash equivalents                                     | 329,862  | 270,848  | 329,862   | 270,848   |
| Restricted cash   | 46,903   | 50,871   | 46,903  | 50,871  |
| Balances receivable on sale of investments                    | 7,951  | 70,174   | 7,951   | 70,174  |
|   | (123,482)  | (66,874)   | (123,482)   | (66,874)  |

Balances due on purchase of  
investments

|                                      |           |           |           |           |
|--------------------------------------|-----------|-----------|-----------|-----------|
| Closing aggregate invested<br>assets | 6,526,859 | 5,861,284 | 6,526,859 | 5,861,284 |
| Average aggregate invested<br>assets | 6,421,134 | 5,589,894 | 6,241,240 | 5,395,631 |
| Annualized investment book<br>yield  | 4.7%      | 4.4%      | 4.7%      | 4.3%      |

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

|  | <b>SIX MONTHS<br/>ENDED</b> | <b>THREE MONTHS<br/>ENDED</b> | <b>YEAR ENDED<br/>DECEMBER</b> |
|--|-----------------------------|-------------------------------|--------------------------------|
|  | <b>JUNE 30, 2007</b>        | <b>MARCH 31, 2007</b>         | <b>31, 2006</b>                |
| Net investment income  | 146,585                     | 72,648                        | 244,360                        |
| Deduct: annual and non-recurring items                           | 2,062                       | 2,062                         |                                |
| Net investment income, recurring                                 | 144,523                     | 70,586                        | 244,360                        |
| Annualized net investment income,<br>recurring                   | 289,046                     | 282,344                       | 244,360                        |
| Add: annual and non-recurring items                              | 2,062                       | 2,062                         |                                |
| Normalized net investment income                                 | 291,108                     | 284,406                       | 244,360                        |
| Fixed maturity investments available for<br>sale, amortized cost | 5,188,379                   | 5,188,379                     | 4,442,040                      |
| Other invested assets, available for sale, cost                  | 245,657                     | 245,657                       | 270,138                        |
| Cash and cash equivalents  | 366,817                     | 366,817                       | 172,379                        |
| Restricted cash  | 138,223                     | 138,223                       | 41,788                         |
| Balances receivable on sale of investments                       | 16,545                      | 16,545                        | 3,633                          |
| Balances due on purchase of investments                          |                             |                               |                                |
| Opening aggregate invested assets                                | 5,955,621                   | 5,955,621                     | 4,929,978                      |
| Fixed maturity investments available for<br>sale, amortized cost | 5,737,857                   | 5,392,983                     | 5,188,379                      |
| Other invested assets, available for sale, cost                  | 202,016                     | 246,500                       | 245,657                        |
| Cash and cash equivalents  | 270,571                     | 288,284                       | 366,817                        |
| Restricted cash  | 51,896                      | 200,813                       | 138,223                        |
| Balances receivable on sale of investments                       | 53,089                      | 25,239                        | 16,545                         |
| Balances due on purchase of investments                          | (21)                        | (46,517)                      |                                |
| Closing aggregate invested assets                                | 6,315,408                   | 6,107,302                     | 5,955,621                      |
| Average aggregate invested assets                                | 6,135,515                   | 6,031,462                     | 5,442,800                      |
| Annualized investment book yield                                 | 4.7%                        | 4.7%                          | 4.5%                           |

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**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 pages 18 and 19 for reconciliations 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 20 and 21 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 pages 18 and 19 for reconciliations of net income to operating income and pages 20 and 21 for reconciliations of average equity.

**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. See page 22 for a reconciliation of diluted book value per share to basic book value per share.

**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 23 and 24 for reconciliations of annualized investment book yield.

