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Allied World Assurance Company (Europe) Limited

Reports and Financial Statements

For the Accounting Year Ended 31 December 2009

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**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009**

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ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

DIRECTORS AND OTHER INFORMATION

Directors

Scott Carmilani (USA)
Hugh Governey
John Redmond
Michael Baldwin (UK)
John Clifford

Principal Bankers

Bank of Ireland,
Colvill House,
Talbot Street,
Dublin 1

Secretary

Wilton Secretarial Limited,
Fitzwilton House,
Wilton Place,
Dublin 2

Custodian Bankers

Mellon Global Securities Services,
P O Box 371791,
Pittsburgh,
PA 15251-7791,
U S A

Solicitors

Matheson Ormsby Prentice,
70 Sir John Rogerson's Quay,
Dublin 2

Investment Managers

Goldman Sachs Asset Management Int'l Ltd.,
Christchurch Court,
10-15 Newgate Street,
London EC1A 7HD,
U K

Registered Office

3rd Floor,
Georges Quay Plaza,
Georges Quay,
Dublin 2

Auditors

Deloitte & Touche
Chartered Accountants,
Deloitte & Touche House,
Earlsfort Terrace,
Dublin 2

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the accounting year ended 31 December 2009

Principal Activities

The principal activity of the company is to underwrite first and third party insurance risks, primarily within the European Union

Review of the Business

Net income after tax for 2009 was a profit of \$1.7 million for the company, after the retrocession to its parent in Bermuda, compared to a loss of \$5.2 million for the same period in 2008. There were several factors which influenced this comparable increase in net income of \$6.9m: (i) a positive movement of \$10.3m in foreign exchange losses due to the weakening of the US dollar against the Euro and Sterling, (ii) a reduction in earned premium of \$1m, due to less premium being written in 2009 compared to the prior year period, (iii) an increase of \$0.3m in net losses incurred, (iv) a decrease of \$3.1m in administrative expenses and (v) an increase of \$0.5m on the companies tax expense during 2010.

Gross premiums written for the year to December 2009 were \$109.1 million, a reduction of \$4.9 million over the prior period's gross written premium of \$114.0 million.

Ceded premiums in the year were \$96.8 million in total, of which \$69.7 million related to retrocessions to its parent in Bermuda and \$27.1 million related to premium ceded to external re-insurers.

Net premiums earned year to date amounted to \$12.3 million compared to \$13.9 million in the prior year.

Net claims incurred in the year amounted to \$7.7 million, as against \$7.4 million for the comparable period in 2008.

Net acquisition income was \$6.9 million in 2009 and was \$5.3 million in 2008.

Administrative expenses were \$13.4 million in total for the year which compares against \$15.3 million in 2008. The decrease is primarily due to decreases in consulting fees and other taxes paid.

Net Investment Income year to date amounted to \$1.1 million compared to \$5.9 million for the same period in 2008.

As part of the company's risk management objectives, it has developed a hedging strategy using currency forward contracts to manage its currency exposure and to minimise any potential loss of value caused by currency fluctuations. The company believes that its exposure to price risk, credit risk, liquidity risk and cashflow risk is low due to the ongoing support received by its parent organization and that by maintaining this hedging strategy it is mitigating its currency risk exposure appropriately.

Profits and Reserves

Profit retained for the year amounted to US\$2.2 million (2008: Loss US\$5.2 million). The directors have not declared a dividend for the year (2008: US\$Nil).

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
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DIRECTORS' REPORT - Continued

Future Developments

The objective is to manage our core business, to maximise profitability and increase book value through future market cycles. In addition, the company seeks to develop a select number of initiatives to expand our geographic distribution and product mix, always with a focus on profitable growth.

Principal risks and uncertainties facing the Company

(i) Any downward revision or revocation of our financial strength ratings by A.M. Best would affect our standing among brokers and customers and may cause our premiums and earnings to decrease -

Ratings have become an increasingly important factor in establishing the competitive position of insurance and reinsurance companies. A.M. Best has assigned a financial strength rating of "A (Excellent)" to AWAC Europe. This rating is subject to periodic review and may be revised downward or revoked at the sole discretion of A.M. Best. If the rating of AWAC Europe is revised downward or revoked, our competitive position in the insurance and reinsurance industry may suffer, and it may be more difficult for us to market our products. Specifically, any revision or revocation of this kind could result in a significant reduction in the number of insurance and reinsurance contracts we write and in a substantial loss of business as customers and brokers that place this business move to competitors with higher financial strength ratings.

(ii) Actual claims may exceed our reserves for losses and loss expenses -

Our success depends on our ability to accurately assess the risks associated with the businesses that we reinsure. We establish loss reserves to cover our estimated liability for the payment of all losses and loss expenses incurred with respect to the policies we write. Loss reserves are estimates of what we expect the ultimate resolution and administration of claims will cost. These estimates are based on actuarial and statistical projections and on our assessment of currently available data, as well as estimates of future trends in claims severity and frequency, judicial theories of liability and other factors. Loss reserve estimates are refined as experience develops and claims are reported and resolved. Establishing an appropriate level of loss reserves is an inherently uncertain process. It is therefore possible that our reserves at any given time will prove to be inadequate.

To the extent we determine that actual losses or loss expenses exceed our expectations and reserves reflected in our financial statements, we will be required to increase our reserves to reflect our changed expectations. This could cause a material increase in our liabilities and a reduction in our profitability, including operating losses and a reduction of capital. The number and size of reported claims that we have received to date have been small. In the future, the number of claims will likely increase, and their cumulative size could exceed our loss reserves. Our results for the year ended December 31, 2009 were impacted by positive reserve developments on the 2002 to 2008 accident years and impacted adversely by strengthening our International Property and Energy reserves on the 2007 accident year.

(iii) We could face losses from terrorism, political unrest and pandemic diseases -

We have exposure to losses resulting from acts of terrorism and political instability. Although we generally exclude acts of terrorism from our property insurance policies and property reinsurance treaties where practicable, we provide coverage in circumstances where we believe we are adequately compensated for assuming those risks. A pandemic disease could also cause us to suffer increased insurance losses on a variety of coverages we offer. Our reinsurance protections may only partially offset these losses. Moreover, even in cases where we seek to exclude coverage, we may not be able to completely eliminate our exposure to these events. It is impossible to predict the timing or severity of these events with statistical certainty or to estimate the amount of loss that any given occurrence will generate. We could also suffer losses from a disruption of our business operations and our investments may suffer a decrease in value due to the occurrence of any of these events. To the extent we suffer losses from these risks, such losses could be significant.

DIRECTORS' REPORT – Continued

(iv) The failure of any of the loss limitation methods we employ could have a material adverse effect on our financial condition or results of operations -

We seek to limit our loss exposure by adhering to maximum limitations on policies written in defined geographical zones, limiting program size for each client, adjusting retention levels and establishing per risk and per occurrence limitations for each event and prudent underwriting guidelines for each insurance program written. Most of our direct liability insurance policies include maximum aggregate limitations. Disputes relating to coverage and choice of legal forum may also arise. As a result, various provisions of our policies that are designed to limit our risks, such as limitations or exclusions from coverage or choice of forum, may not be enforceable in the manner we intend and some or all of our other loss limitation methods may prove to be ineffective.

(v) We may be impacted by claims relating to the recent credit market downturn and subprime insurance exposures -

We write corporate directors and officers, errors and omissions and other insurance coverages for financial institutions and financial services companies. This industry segment has been impacted by the recent credit market downturn. As a result, this industry segment has been the subject of heightened scrutiny and in some cases investigations by regulators with respect to the industry's actions as they relate to subprime mortgages, collateralized debt obligations, structured investment vehicles and swap and derivative transactions. These events may give rise to increased claim litigation, including class action suits, which may involve our insureds. To the extent we have claims relating to these events, it could cause substantial volatility in our financial results and could have a material adverse effect on our financial condition and results of operations.

(vi) We depend on a small number of brokers for a large portion of our revenues. The loss of business provided by any one of them could adversely affect us -

We market our insurance products worldwide almost exclusively through insurance brokers. In the year ended December 31, 2009, our top five brokers represented approximately 83% of gross premiums written by us. Loss of all or a substantial portion of the business provided by any one of our top five brokers could have an adverse effect on our financial condition and results of operations.

(vii) Our reliance on brokers subjects us to their credit risk -

In accordance with industry practice, we frequently pay amounts owed on claims under our insurance contracts to brokers, and these brokers, in turn, pay these amounts to the customers that have purchased insurance or reinsurance from us. If a broker fails to make such a payment, it is likely that, in most cases, we will be liable to the client for the deficiency because of local laws or contractual obligations. Likewise, when a customer pays premiums for policies written by us to a broker for further payment to us, these premiums are generally considered to have been paid and, in most cases, the client will no longer be liable to us for those amounts, whether or not we actually receive the premiums. Consequently, we assume a degree of credit risk with the brokers we use with respect to our insurance business.

(viii) We may be unable to purchase reinsurance for our own account on commercially acceptable terms or to collect under any reinsurance we have purchased -

We acquire reinsurance purchased for our own account to mitigate the effects of large or multiple losses on our financial condition. From time to time, market conditions have limited, and in some cases prevented, insurers and reinsurers from obtaining the types and amounts of reinsurance they consider adequate for their business needs. For example, following the events of September 11, 2001, terms and conditions in the reinsurance markets generally became less attractive to buyers of such coverage. Similar conditions may occur at any time in the future, and we may not be able to purchase reinsurance in the areas and for the amounts required or desired. Even if reinsurance is generally available, we may not be able to negotiate terms that we deem appropriate or acceptable or to obtain coverage from entities with satisfactory financial resources.

In addition, a reinsurer's insolvency, or inability or refusal to make payments under a reinsurance or retrocessional insurance agreement with us, could have a material adverse effect on our financial condition and results of operations, because we remain liable to the reinsured under the corresponding coverages written by us.

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

DIRECTORS' REPORT – Continued

(ix) Our investment performance may adversely affect our financial performance and ability to conduct business -

We derive a material portion of our income from our invested assets. As a result, our operating results depend in part on the performance of our investment portfolio. Our investment performance is subject to a variety of risks, including risks related to general economic conditions, market volatility, interest rate fluctuations, liquidity risk and credit and default risk. The values of, and returns on, such investments, may also be more volatile.

Because of the unpredictable nature of losses that may arise under insurance policies written by us, our liquidity needs could be substantial and may arise at any time. We strive to structure our investments in a manner that recognizes our liquidity needs for our future liabilities. In that regard, we attempt to correlate the maturity and duration of our investment portfolio to our general liability profile. To the extent we are unsuccessful in correlating our investment portfolio with our expected liabilities, we may be forced to liquidate our investments at times and prices that are not optimal. This could have a material adverse effect on the performance of our investment portfolio. If our liquidity needs or general liability profile unexpectedly changes, we may not be successful in continuing to structure our investment portfolio in its current manner.

(x) Any increase in interest rates could result in significant losses in the value of our investment portfolio -

Our investment portfolio contains interest-rate-sensitive instruments. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. Although we attempt to manage the risks of investing in a changing interest rate environment, we may not be able to effectively mitigate interest rate sensitivity. In particular, increases in interest rates could result in significant losses, realised or unrealised, in the value of our investment portfolio.

(xi) We may be adversely affected by fluctuations in currency exchange rates -

Our functional and reporting currency is the US dollar. We do enter into insurance contracts, however, where premiums receivable and losses payable are denominated in currencies other than the US dollar. In addition, we maintain a portion of our investments and liabilities in currencies other than the US dollar. For liabilities incurred in most currencies other than the US dollar, US dollars are converted to the currency of the loss at the time of claims payment. Although we have adopted a strategy to manage our foreign exchange exposure, we may still have some exposure to foreign currency risk resulting from fluctuations in exchange rates. Any losses related to this risk could have a material adverse effect on our financial condition and results of operations.

(xii) We may require additional capital in the future that may not be available to us on commercially favourable terms -

Our future capital requirements depend on many factors, including our ability to write new business and to establish premium rates and reserves at levels sufficient to cover losses. To the extent that the funds generated by insurance premiums received and sale proceeds and income from our investment portfolio are insufficient to fund future operating requirements and cover losses and loss expenses, we may need to raise additional funds through financings or curtail our growth and reduce our assets. Any future financing, if available at all, may be on terms that are not favourable to us. In the case of equity financings, dilution to our shareholders could result, and the securities issued may have rights, preferences and privileges that are senior or otherwise superior to those of our common shares. If we cannot obtain adequate capital, our business, financial condition and results of operations could be adversely affected.

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

DIRECTORS' REPORT – Continued

(xiii) **Our business could be adversely affected if we lose any member of our management team or are unable to attract and retain our personnel -**

Our success depends in substantial part on our ability to attract and retain our employees who generate and service our business. We rely substantially on the services of our executive management team. If we lose the services of any member of our management team, our business could be adversely affected. Similarly, if we are unable to attract and retain other talented personnel, the further implementation of our business strategy could be impeded. This, in turn, could have a material adverse effect on our business.

(xiv) **Compliance by AWAC Europe with the legal and regulatory requirements to which it is subject is expensive; any failure to comply could have a material adverse effect on our business -**

AWAC Europe and its branch in London are subject to various insurance regulations promulgated by the Financial Regulator in Ireland. It is not possible to predict the future impact of changes in laws and regulations on our operations. The cost of complying with any new legal requirements affecting our company could have a material adverse effect on our business.

Any failure to comply with applicable law or to obtain appropriate exemptions could result in restrictions on either the ability of the company in question, as well as potentially its affiliates, to do business in one or more of the jurisdictions in which they operate or on brokers on which we rely to continue to produce business for us. In addition, any such failure to comply with applicable law or to obtain appropriate exemptions could result in the imposition of fines or other sanctions. Any of these sanctions could have a material adverse effect on our business.

Events since the Year End

There have been no significant events affecting the company since the year end.

Directors' Interests

The directors set out in the table below have held office for the whole period from 1 January 2009 to the date of this report unless otherwise stated. The directors holding office at 31 December 2009 held no interests in the company but held the following interests in its ultimate parent company Allied World Assurance Company Holdings, Ltd.

	Ordinary Shares (number) As at 31 Dec 2009	Ordinary Shares (number) As at 31 Dec 2008
Hugh Governey	0	0
John Redmond	31,488	41,488
Michael Baldwin	55,333	55,333
John Clifford	0	0
Scott Carmilani	166,159	124,000

Directors' Responsibilities

Irish company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the loss of the company for that year. In preparing those financial statements, the directors are required to

- select suitable accounting policies and apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, and
- state whether applicable accounting standards have been followed.

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements are prepared in accordance with the accounting standards generally accepted in Ireland and comply with the Irish Companies Acts, 1963 to 2009 and the European Communities (Insurance Undertakings Accounts) Regulations, 1996. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009**


DIRECTORS' REPORT – Continued

Books of Account

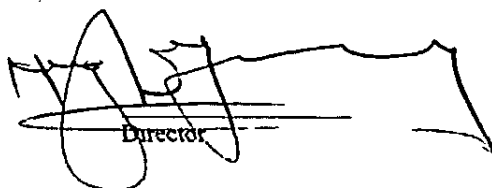
The Directors ensured that they have complied with the requirements of Section 202 of the Companies Act 1990 with regard to maintaining proper books of account. The specific measures taken are the employment of suitably qualified accounting personnel and the maintenance of appropriate accounting systems. The books of account are located at their registered office as stated on page 2.

Auditors

The auditors, Deloitte & Touche, Chartered Accountants, have signified their willingness to continue in office in accordance with Section 160(2) of the Companies Act, 1963.



Director



Director

30/03/2010
Date

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED

We have audited the financial statements of Allied World Assurance Company (Europe) Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Accounting Policies and the related notes 1 to 16. These financial statements have been prepared under the accounting policies set out in the Statement of Accounting Policies

This report is made solely to the company's members, as a body, in accordance with Section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors are responsible for preparing the financial statements as set out in the Statement of Directors' Responsibilities, in accordance with applicable law and accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland)

Our responsibility, as independent auditor, is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2009 and the European Communities (Insurance Undertakings Accounts) Regulations, 1996. We also report to you whether in our opinion proper books of account have been kept by the company; whether, at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the company, and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purpose of our audit and whether the company's balance sheet and profit and loss account are in agreement with the books of account

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement within it. Our responsibilities do not extend to other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the financial statements

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Members of
Deloitte Touche Tohmatsu

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED

Opinion

In our opinion the financial statements

- give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the affairs of the company as at 31 December 2009 and of the profit for the year then ended, and
- have been properly prepared in accordance with the Companies Acts, 1963 to 2009 and the European Communities (Insurance Undertakings Accounts) Regulations, 1996

We have obtained all the information and explanations we considered necessary for the purpose of our audit. In our opinion proper books of account have been kept by the company. The company's balance sheet and its profit and loss account are in agreement with the books of account.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

The net assets of the company, as stated in the balance sheet are more than half the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2009 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the company.

Deloitte + Touche
Chartered Accountants and Registered Auditors
Dublin

Date *30 March 2010*

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

STATEMENT OF ACCOUNTING POLICIES

The significant accounting policies adopted by the company are as follows

Basis of Presentation

The financial statements have been prepared in accordance with the provisions of the Companies Acts, 1963 to 2009, as amended by the European Communities (Insurance Undertakings Accounts) Regulations 1996

The financial statements have also been prepared in accordance with applicable accounting standards and comply with financial reporting standards of the Accounting Standards Board, as promulgated by the Institute of Chartered Accountants in Ireland

The financial statements have been prepared in accordance with the provisions of the Statement of Recommended Practice on Accounting for Insurance Business currently in effect

Historical Cost Convention

The financial statements have been prepared in accordance with the historical cost convention, as modified to include investments at current market value

Recognition of Underwriting Income

Premiums are recognized as written on the inception date of a policy. Other insurance and insurance policies can require that the premium be adjusted at the expiry of a policy to reflect the risk assumed by us. Premiums resulting from those adjustments are estimated and accrued based on available information. Reinstatement premiums related to property catastrophe reinsurance are estimated and accrued based upon contractual terms applied to the amount of losses expected to be paid.

Premiums are earned over the period of policy coverage in proportion to the risks to which they relate. Premiums relating to unexpired periods of coverage are carried on the balance sheet as a reserve for unearned premiums.

Acquisition costs, primarily brokerage fees, commissions and insurance taxes, are incurred in the acquisition of new and renewal business and are expensed as the premiums to which they relate are earned. Acquisition costs relating to the reserve for unearned premiums are deferred and carried on the balance sheet as an asset. Anticipated losses and loss expenses, other costs and investment income related to these unearned premiums are considered in determining the recoverability or deficiency of deferred acquisition costs. If it is determined that deferred acquisition costs are not recoverable, they are expensed in the period so determined. Further analysis is performed to determine if a liability is required to provide for losses which may exceed the related unearned premiums.

Outstanding Claims

The reserve for losses and loss expenses is comprised of two main elements: outstanding loss reserves (also known as "case reserves") and reserves for losses incurred but not reported (also known as "IBNR"). Case reserves relate to known claims and represent management's best estimate of the likely loss settlement. Thus, there is a significant amount of estimation involved in determining the likely loss payment. IBNR reserves require substantial judgement because they relate to unquantified events that, based on industry information, management's experience and actuarial evaluation, can reasonably be expected to have occurred and are reasonably likely to result in a loss to our company.

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

STATEMENT OF ACCOUNTING POLICIES – Continued

Outstanding Claims (continued)

IBNR reserves are estimated for each business segment based on various factors, including underwriters' expectations about loss experience, actuarial analysis, comparisons with industry benchmarks and loss experience to date. Our actuaries employ generally accepted actuarial methodologies to determine estimated ultimate expected losses and loss expenses. The adequacy of our reserves is tested quarterly by our actuaries. A loss reserve study is prepared by an independent actuary annually in order to provide additional insight into the reasonability of our reserves for losses and loss expenses.

Estimating reserves for our property segment relies primarily on traditional loss reserving methodologies, utilizing selected paid and reported loss development factors. In property lines of business, claims are generally reported and paid within a relatively short period of time during and following the policy coverage period. This enables us to determine with greater certainty our estimate of ultimate losses and loss expenses.

Loss reserves do not represent an exact calculation of liability. Rather, loss reserves are estimates of what we expect the ultimate resolution and administration of claims will cost. These estimates are based on actuarial and statistical projections and on our assessment of currently available data, as well as estimates of future trends in claims severity and frequency, judicial theories of liability and other factors. Loss reserve estimates are refined as experience develops and as claims are reported and resolved.

We determine what portion of the losses will be recoverable under our insurance policies by reference to the terms of the insurance protection purchased. This determination is necessarily based on the underlying loss estimates and, accordingly, is subject to the same uncertainties as the estimate of case reserves and IBNR reserves.

While management believes that our case reserves and IBNR reserves are sufficient to cover losses assumed by us, ultimate losses and loss expenses may deviate from our reserves, possibly by material amounts. For instance, as of December 31, 2009, a 5% change in net IBNR reserves would cause net losses and loss expenses to change by \$2.2 million, which translates into a 4% change in shareholder's equity. To the extent actual reported losses exceed estimated losses, the carried estimate of the ultimate losses will be increased, and to the extent actual reported losses are less than our expectations, the carried estimate of ultimate losses will be reduced. In addition, the methodology of estimating loss reserves is periodically reviewed to ensure that the assumptions made continue to be appropriate. We record any changes in our loss reserve estimates and the related insurance recoverables in the periods in which they are determined.

Investments

Investments are carried at their current market value. Investment income comprises income received and receivable on fixed income securities, interest earned and accrued on cash, realised gains on disposal of investments and unrealised gains on investments held. A transfer of investment return is made from the non-technical account to the technical account in order to reflect the actual investment return on the assets supporting the technical provisions and associated shareholders' funds.

Pension Costs

Pension benefits are funded over the employee's period of service by way of contributions to a defined contribution scheme. The Company's annual contribution costs are charged to the profit and loss account in the period to which they relate.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date, and revenues, costs and non-monetary assets at the exchange rates ruling at the dates of

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

STATEMENT OF ACCOUNTING POLICIES – Continued

Foreign Currency Translation (continued)

the transactions Profits and losses arising from foreign currency translation and on settlement of amounts receivable and payable in foreign currencies are dealt with through the profit and loss account Monetary assets are defined as money or securities held and amounts to be received in money, all other assets are non-monetary assets

Taxation

The charge for the company is based on the result for the year Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date Deferred tax is not recognised on permanent differences Deferred tax assets are recognised to the extent that they are regarded as recoverable They are regarded as recoverable to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Share-based Payments (“FRS 20”)

The Company recognises equity-settled share-based payments at fair value at the date of grant The fair value is expensed on a straight-line basis over the vesting period, based on the Company’s estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions Fair value of share options is measured using the Black-Scholes pricing model The expected life used in the model has been adjusted, based on management’s best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations Fair value of Restricted Stock Units (“RSU’s”) is based on the closing market value at the date of grant

The equity settled share-based payments expense has been included in the “Net operating expenses” line of the income statement

Derivative Instruments

The company uses currency forward contracts to manage currency exposure The Company enters in to insurance contracts where the premium receivable and losses payable are denominated in currencies other than US\$ In addition, the Company maintains a portion of its investments and liabilities in currencies other than the US\$, primarily the Euro and Sterling For liabilities incurred in currencies other than US\$, US\$ are converted to the currency of the loss at the time of claim payment As a result, the Company has an exposure to foreign currency risk resulting from fluctuations in foreign exchange rates The company has developed a hedging strategy using currency forward contracts to minimise the potential loss of value caused by currency fluctuations These currency forward contracts are carried at the contracted rate of exchange, revalued at the period end date and included in the balance sheet as part of “other creditors,” with the corresponding realised and unrealised gains and losses included in the “Net operating expenses” line of the income statement

Reporting Currency

The financial statements are expressed in United States dollars (US\$)

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT

	Notes	31 Dec 2009 US\$	31 Dec 2008 US\$
Earned premiums, net of reinsurance			
Gross premiums written	2	109,123,861	114,000,927
Outward reinsurance premiums		<u>(96,832,776)</u>	<u>(100,077,928)</u>
Net premiums written		<u>12,291,085</u>	<u>13,922,999</u>
Change in the gross provision for unearned premiums	12	(1,307,898)	4,519,725
Change in the provision for unearned premiums, reinsurers' share	12	<u>1,817,102</u>	<u>(4,585,922)</u>
Change in the net provision for unearned premiums		<u>509,204</u>	<u>(66,197)</u>
Earned premiums, net of reinsurance		<u>12,800,288</u>	<u>13,856,802</u>
Allocated investment return transferred from the non- technical account		<u>1,174,280</u>	<u>5,884,747</u>
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(12,800,053)	(38,213,834)
Reinsurers' share		<u>11,640,392</u>	<u>36,016,261</u>
Net claims paid		<u>(1,159,661)</u>	<u>(2,197,573)</u>
Change in the provision for claims			
Gross amount	12	(40,513,533)	(24,161,191)
Reinsurers' share	12	<u>33,973,474</u>	<u>18,956,926</u>
Change in the net provision for claims		<u>(6,540,059)</u>	<u>(5,204,265)</u>
Claims incurred, net of reinsurance		<u>(7,699,720)</u>	<u>(7,401,838)</u>
Net operating expenses	3	<u>(4,059,126)</u>	<u>(17,522,268)</u>
Balance on the technical account for non life insurance business		<u>2,215,720</u>	<u>(5,182,557)</u>

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

PROFIT AND LOSS ACCOUNT
NON-TECHNICAL ACCOUNT

	Notes	31 Dec 2009 US\$	31 Dec 2008 US\$
Balance on the technical account for non life insurance business		2,215,720	(5,182,557)
Investment income	4	1,174,280	5,884,747
Allocated investment return transferred to the non life insurance technical account		<u>(1,174,280)</u>	<u>(5,884,747)</u>
Profit/ (Loss) on ordinary activities before taxation	5	2,215,720	(5,182,557)
Tax on profit/ (loss) on ordinary activities	6	<u>(534,955)</u>	<u>(1,306)</u>
Profit/ (Loss) on ordinary activities after taxation		<u>1,680,765</u>	<u>(5,183,863)</u>


There were no recognized gains or losses other than those included in the profit and loss account

Profit/ (Loss) on ordinary activities arose solely out of continuing activities

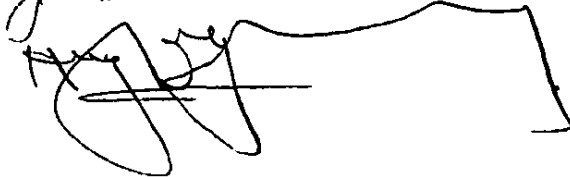
The accompanying notes form an integral part of these financial statements

The financial statements were approved by the Board of Directors on 30 March 2010, and signed on its behalf by

Director



Director



ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

BALANCE SHEET

	Notes	31 Dec 2009 US\$	31 Dec 2008 US\$
<u>ASSETS</u>			
Investments			
Debt securities and other fixed income securities	7	106,372,039	90,412,911
Deposits with credit institutions		<u>11,016,077</u>	<u>14,370,526</u>
		<u>117,388,116</u>	<u>104,783,437</u>
Reinsurers' share of technical provisions			
Provision for unearned premiums	12	55,564,051	53,746,951
Claims outstanding	12	<u>357,996,270</u>	<u>324,022,796</u>
		<u>413,560,321</u>	<u>377,769,747</u>
Debtors			
Debtors arising from insurance operations	8	20,029,108	17,278,501
Other debtors	8	<u>5,215,967</u>	<u>2,196,419</u>
		<u>25,245,075</u>	<u>19,474,920</u>
Other assets			
Tangible assets		547,780	1,068,230
Cash at bank and in hand		<u>701,637</u>	<u>484,802</u>
		<u>1,249,417</u>	<u>1,553,032</u>
Prepayments and accrued income			
Accrued interest		<u>1,719,235</u>	<u>1,525,672</u>
Total Assets		<u><u>559,162,164</u></u>	<u><u>505,106,808</u></u>

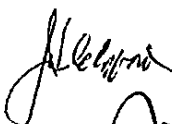
ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

BALANCE SHEET		31 Dec 2009	31 Dec 2008
	Notes	US\$	US\$
<u>LIABILITIES</u>			
Capital and reserves			
Called up share capital	9	5,000,000	5,000,000
Capital contribution	11	45,000,000	45,000,000
Retained profit	11	4,785,375	3,104,609
Shareholders' funds	11	<u>54,785,375</u>	<u>53,104,609</u>
Technical provisions			
Provision for unearned premiums	12	63,142,471	61,834,574
Claims outstanding	12	411,949,795	371,436,262
		<u>475,092,266</u>	<u>433,270,836</u>
Creditors			
Creditors arising out of insurance operations	13	21,216,123	10,395,485
Other creditors including taxation and social security	13	4,620,919	4,628,018
		<u>25,837,043</u>	<u>15,023,503</u>
Deferred acquisition income		3,447,481	3,707,860
Total Liabilities		<u>559,162,164</u>	<u>505,106,808</u>

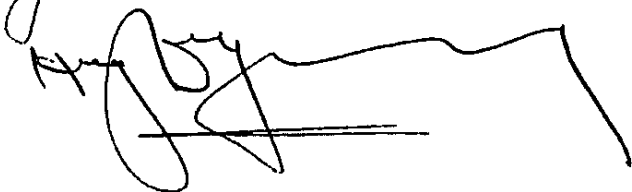
The accompanying notes form an integral part of these financial statements

The financial statements were approved by the Board of Directors on 30 March 2010, and signed on its behalf by

Director



Director



ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

NOTES TO THE FINANCIAL STATEMENTS FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2009

1 Principal Activities

The company is licensed to undertake the business of Non-Life Insurance in Ireland in the following classes under the European Communities (Non-Life Insurance) Framework Regulations, 1994 – Classes 1, 3, 4, 5, 6, 7, 11, 12, 13 and 16

The company has outward reinsurance with external reinsurers on the property, energy and general casualty books of business. The company also has an internal quota share agreement with Allied World Assurance Company, Ltd, after external reinsurance is first applied

2 Segmental analysis
For the year

	31 Dec 09			31 Dec 08		
	Casualty US\$	Property US\$	Total US\$	Casualty US\$	Property US\$	Total US\$
Gross premium written						
- risks located in EU	97,383,609	10,386,138	107,769,747	82,910,478	3,379,984	86,290,462
- risks located outside EU	1,354,113	0	1,354,113	19,678,667	8,031,798	27,710,465
	98,737,722	10,386,138	109,123,860	102,589,145	11,411,782	114,000,927
Change in the provision for UEPR	(1,599,849)	291,952	(1,307,897)	265,124	4,254,601	4,519,725
Gross premium earned	97,137,873	10,678,090	107,815,963	102,854,269	15,666,383	118,520,652
Gross claims incurred	(40,957,442)	(12,356,143)	(53,313,585)	(59,330,988)	(3,044,037)	(62,375,025)
Net operating expenses	(3,383,450)	(675,676)	(4,059,126)	(14,446,663)	(3,075,605)	(17,522,268)
Gross technical result	52,796,981	(2,353,729)	50,443,252	29,076,618	9,546,741	38,623,359
Reinsurance balance	(351,679)	(49,050,133)	(49,401,812)	(38,236,853)	(11,453,810)	(49,690,663)
Allocated investment return	1,062,515	111,765	1,174,280	5,295,669	589,078	5,884,747
Net technical result	53,507,817	(51,292,097)	2,215,720	(3,864,566)	(1,317,991)	(5,182,557)

Gross written premium relates to contracts in the following geographical locations

	2009 US\$	2008 US\$
Republic of Ireland	9,608,293	1,896,837
Other EU member states	98,161,455	84,393,624
Other countries	1,354,113	27,710,466
Total	109,123,861	114,000,927

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

NOTES TO THE FINANCIAL STATEMENTS FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2009
(continued)

3 Net operating expenses	31 Dec 2009	31 Dec 2008
	US\$	US\$
Administrative expenses	13,370,392	15,345,194
Foreign exchange (gain)/ loss	(2,431,961)	7,443,291
Broker commissions	6,618,416	6,963,332
Reinsurers share of broker commissions	(13,830,234)	(14,262,640)
Movement in deferred acquisition costs	332,513	2,033,091
	<u>4,059,126</u>	<u>17,522,268</u>
The company's employment costs for all employees comprise -		
Stock compensation expense	1,116,496	1,029,320
Wages and salaries	4,340,510	4,636,420
Social welfare costs	694,058	628,033
Pension costs	411,681	480,857
	<u>6,562,745</u>	<u>6,774,630</u>

Included in administrative expenses are payments made to a defined contribution pension scheme on behalf of employees during the year amounting to \$411,681 (2008 \$480,857) \$12,323 (2008 \$22,128) was payable at the year end

The average number of persons employed by the company during the year was 26 (2008 28)

4 Investment income	31 Dec 2009	31 Dec 2008
	US\$	US\$
Fixed maturities and other investments	1,108,137	5,367,396
Cash and cash equivalents	66,143	517,351
	<u>1,174,280</u>	<u>5,884,747</u>

Changes in unrealised gains were \$404,100 gain for the year ended December 31, 2009 and \$3,571,443 gain for the year ended December 31, 2008 Net realised losses were (\$1,005,038) for the year ended December 31, 2009 and \$1,810,805 gain for the year ended December 31, 2008

5 Profit/ (Loss) on ordinary activities before tax	31 Dec 2009	31 Dec 2008
	US\$	US\$
Profit/ (Loss) on ordinary activities before tax is stated after charging		
Auditors' remuneration	370,752	380,528
Directors' remuneration	70,438	64,281
	<u>441,190</u>	<u>444,809</u>

6 Tax on profit/ (loss) on ordinary activities	31 Dec 2009	31 Dec 2008
	US\$	US\$
Profit/ (Loss) on ordinary activities before tax	2,215,720	(5,182,557)
Corporation tax charge at the standard rate of 12.5%	276,965	(647,819)
Effects of		
Non deductible expenses	52,617	145,712
Capital allowances	(40,774)	(50,891)
Foreign tax deduction	(184,543)	(619)
Tax provision on UK branch profits	413,377	40,657
Prior year under provision	(13,639)	86,578
Other taxes paid	0	0
Surrender of losses to affiliate company	0	553,617
Movement in deferred tax	30,951	(125,929)
Corporation tax charge	<u>534,954</u>	<u>1,306</u>

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

NOTES TO THE FINANCIAL STATEMENTS FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2009
(continued)

7 Debt Securities	2009	2008
	US\$	US\$
Debt securities and other fixed income securities are all on recognised stock exchanges		
Opening Balance	90,412,911	69,511,864
Additions	39,281,376	42,179,516
Disposals	(26,176,325)	(26,416,511)
Valuation Adjustment/ Amortisation/ FX	2,854,077	5,138,042
	106,372,039	90,412,911

The amortised cost of debt securities and other fixed income securities held is \$99,402,705 (2008 \$87,595,340)

8 Debtors	2009	2008
	US\$	US\$
Debtors arising from insurance operations		
Amounts due from external parties	20,029,108	17,278,501
Other debtors		
Deferred tax asset	592,331	623,282
Prepayments and other debtors	630,329	606,653
Amounts due from affiliates	3,993,307	966,484
	5,215,967	2,196,419

9 Equity Share Capital	2009	2008
	US\$	US\$
Authorised		
100,000,000 ordinary shares of US\$1 each	100,000,000	100,000,000
Issued		
5,000,000 ordinary shares of US\$1 each	5,000,000	5,000,000

Each ordinary share is issued with one voting right attached

10 Employee Benefit Plans

a) Employee option plan

In 2001, Allied World Assurance Company Holdings, Ltd ("Holdings"), the ultimate Parent of the Company implemented the Allied World Assurance Company Holdings, Ltd 2001 Employee Warrant Plan, which, after Holdings' special general meeting of shareholders on June 9, 2006 and its IPO on July 11, 2006, was amended and restated and renamed the Allied World Assurance Company Holdings, Ltd Amended and Restated 2001 Employee Stock Option Plan (the "Plan"). The Plan provides certain employees with additional incentive to continue their efforts on behalf of the Company and assists the Company in attracting people of experience and ability. The Plan was converted into a stock option plan as part of the IPO and the warrants that were previously granted thereunder were converted to options and remain outstanding with the same exercise price and vesting period. Under the Plan, up to 4,000,000 common shares of Holdings may be issued. These options are exercisable in certain limited conditions, expire after 10 years, and generally vest pro-rata over four years from the date of grant. During the period from November 13, 2001 to December 31, 2002, the exercise price of the options issued was \$24.26 per share. The exercise prices of options issued subsequent to December 31, 2002 and prior to the IPO were based on the per share book value of Holdings. The exercise price of options issued subsequent to the IPO are determined by the Board of Directors but shall not be less than 100% of the fair market value of the common shares of Holdings on the date the option

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

NOTES TO THE FINANCIAL STATEMENTS FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2009
(Note 10 continued)

award is granted

	<u>2009</u>	<u>2008</u>
Outstanding at beginning of year	78,573	67,890
Granted	14,624	23,250
Exercised	(11,420)	(5,575)
Forfeited	(3,605)	(6,000)
Transfers In/ (Out)	(7,500)	(992)
Expired	--	--
Outstanding at end of year	<u>70,672</u>	<u>78,573</u>
Weighted average exercise price per option	<u>\$ 29.65</u>	<u>\$ 35.32</u>
Fair value at end of year	<u>\$ 700,259</u>	<u>\$ 506,877</u>

Prior to the second quarter of 2006, the calculation of the compensation expense associated with the options had been made by reference to the book value per share of Holdings as of the end of each period and was deemed to be the difference between such book value per share and the exercise price of the individual options. The book value of Holdings approximated its fair value. The use of a fair value other than the book value was first implemented for the period ended June 30, 2006. The fair value of each option granted was determined at June 30, 2006 using the Black-Scholes option-pricing model. Although the IPO was subsequent to June 30, 2006, the best estimate of the fair value of the common shares at that time was the IPO price of \$34.00 per share.

The combined amendment to the Plan and the IPO of the Company constituted a "modification" to the Plan in accordance with FRS 20. Accordingly, the options outstanding at the time of the IPO were revalued using the Black-Scholes option-pricing model. The amendments to the Plan qualifies it as an "equity plan" in accordance with FRS 20 and as such, current liabilities have been and future compensation expenses will be, included in additional paid-in capital on the balance sheet.

Assumptions used in the option-pricing model for the options during the year ended 31st December 2009 are as follows:

	<u>Options granted during the year ended December 31, 2009</u>	<u>Options granted during the year ended December 31, 2008</u>
Expected term of option	4.75 years	6.25 years
Weighted average risk-free interest rate	2.03%	2.58%
Weighted average expected volatility	42.96%	24.22%
Dividend yield	1.71%	1.66%
Exercise price	<u>\$39.02</u>	<u>\$43.05</u>
Weighted average share price	<u>\$41.87</u>	<u>\$40.86</u>

As Holdings became a public company in July 2006, there is limited historical data available to it on which to base the volatility of its stock. As such, Holdings used the average of five volatility statistics from comparable companies in order to derive the volatility values above.

b) Stock incentive plan

In 2004, Allied World Assurance Company Holdings, Ltd ("Holdings"), the ultimate Parent of the Company implemented the Allied World Assurance Holdings, Ltd 2004 Stock Incentive Plan which, after Holdings' special general meeting of shareholders on June 9, 2006 and the IPO on July 11, 2006, was amended and restated and renamed the Allied World Assurance Company Holdings, Ltd Amended and Restated 2004 Stock Incentive Plan (the "Stock Incentive Plan"). The Stock Incentive Plan provides for grants of RSUs, dividend equivalent rights and other equity-based awards. A total of 2,000,000 common shares may be issued under the Stock Incentive Plan. To date only RSUs have been granted. These RSUs generally vest in the fourth or fifth year from the original grant date, or pro-rata over four years from the date of the grant.

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

NOTES TO THE FINANCIAL STATEMENTS FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2009

(Note 10 continued)

	<u>2009</u>	<u>2008</u>
Outstanding RSUs at beginning of year	51,695	59,880
RSUs granted	5,624	13,580
RSUs fully vested	(8,022)	(5,739)
RSUs forfeited	(3,875)	(5,500)
Transfers In/ (Out)	(792)	(10,526)
Outstanding RSUs at end of year	<u>44,630</u>	<u>51,695</u>
Fair value at end of year	<u>\$ 2,056,104</u>	<u>\$ 2,098,813</u>

For those RSU's outstanding at the time of the amendment, the modification to the Stock Incentive Plan required a revaluation of the RSU's based on the fair market value of the common shares at the time of the IPO. The vesting period remained the same. The compensation expense for the RSU's on a going-forward basis is based on the fair market value per common share of the Company as of the respective grant dates and is recognized over the vesting period. All accumulated amounts due under the Stock Incentive Plan were transferred to additional paid-in capital on the consolidated balance sheet.

c) Long-term incentive plan

In May 2006, Allied World Assurance Company Holdings, Ltd ("Holdings"), the ultimate Parent of the Company implemented the Long-Term Incentive Plan ("LTIP"), which provides for performance based equity awards to key employees in order to promote the long-term growth and profitability of the Company. Each award represents the right to receive a number of common shares in the future, based upon the achievement of established performance criteria during the applicable three-year performance period. A total of 2,000,000 common shares may be issued under the LTIP. The awards granted in 2008 will vest after the fiscal year ending December 31st 2010 or in the fourth or fifth year from the original grant date, subject to the achievement of the performance conditions and terms of the LTIP. The awards granted in 2007 will vest after the fiscal year ending December 31st 2009, subject to the achievement of the performance conditions and terms of the LTIP.

	<u>2009</u>	<u>2008</u>
Outstanding LTIP awards at beginning of year	24,631	31,905
LTIP awards granted	2,339	7,726
LTIP awards vested	(9,356)	--
LTIP awards forfeited	--	--
Transfers In/ (Out)	--	(15,000)
Outstanding LTIP awards at end of year	<u>17,614</u>	<u>24,631</u>
Fair value at end of year	<u>\$811,494</u>	<u>\$ 1,000,019</u>

11 Movement in equity shareholders' funds

	Share Capital US\$	Capital Contribution US\$	Profit & Loss Account US\$	Total US\$
Balance at 1 January 2008	5,000,000	25,000,000	8,288,472	38,288,472
Additional paid in capital	-	20,000,000	-	20,000,000
Loss on ordinary activities after tax	-	-	(5,183,863)	(5,183,863)
Balance at 1 January 2009	<u>5,000,000</u>	<u>45,000,000</u>	<u>3,104,609</u>	<u>53,104,609</u>
Profit on ordinary activities after tax			1,680,766	1,680,766
Balance as at 31 December 2009	5,000,000	45,000,000	4,785,375	54,785,375

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

NOTES TO THE FINANCIAL STATEMENTS FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2009
(continued)

12 Technical Provisions	Gross	Reinsurance	Net
Claims Outstanding	Amount	Amount	Amount
	US\$	US\$	US\$
At 1 January 2009	371,436,262	(324,022,796)	47,413,466
Movement in provision	40,513,533	(33,973,474)	6,540,059
	<hr/>	<hr/>	<hr/>
At 31 December 2009	411,949,795	(357,996,270)	53,953,525
	<hr/>	<hr/>	<hr/>
Unearned Premium Reserve	Gross	Reinsurance	Net
	Amount	Amount	Amount
	US\$	US\$	US\$
At 1 January 2009	61,834,574	(53,746,951)	8,087,623
Movement in the provision	1,307,898	(1,817,100)	(509,202)
	<hr/>	<hr/>	<hr/>
At 31 December 2009	63,142,472	(55,564,051)	7,578,421
	<hr/>	<hr/>	<hr/>

The results for the year ended December 31, 2009 included \$38 3m in positive reserve development for the accident years 2002 to 2008
The results for the year ended December 31, 2008 included \$1 8m in positive reserve development for the accident years 2002 to 2007

13 Creditors	2009	2008
	US\$	US\$
Creditors arising out of reinsurance operations		
Third party creditors	9,042,303	2,935,731
Amounts due to affiliates	12,173,820	7,459,754
	<hr/>	<hr/>
	21,216,123	10,395,485
	<hr/>	<hr/>
Other creditors including taxation and social security	2009	2008
	US\$	US\$
Corporation tax	(66,205)	(44,355)
Amounts due to affiliates	2,094,935	3,416,434
Other creditors	2,592,189	1,255,939
	<hr/>	<hr/>
	4,620,919	4,628,018

Forward Contracts (Included in Other Creditors)

The company has not applied fair value accounting for derivative contracts. Disclosure of Fair Value and relevant terms and Conditions, as required under the Companies Act 1986, relating to derivative contracts at year end is given below:

Fair Value	2009	2008
	US\$	US\$
Forward Foreign Currency Contracts	(888,845)	0
	<hr/>	<hr/>

ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

NOTES TO THE FINANCIAL STATEMENTS FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2009
(Note 13 continued)

Notional amounts and relevant terms and conditions of each of the above category of derivative contracts are given below

Amount Purchased	Amount Sold	Forward Rate Agreed	Maturity Date
EUR 4,000,000	USD 6,013,240	1 50331	22nd January 2010
GBP 4,000,000	USD 6,651,240	1 66281	22nd January 2010
USD 6,388,480	GBP 4,000,000	1 59712	22nd January 2010
EUR 8,000,000	USD 12,026,480	1 50331	22nd January 2010
USD 4,992,870	GBP 3,000,000	1 66429	22nd January 2010

14 Parent Company:

The parent company for which group financial statements are drawn up and of which the company is a subsidiary is Allied World Assurance Holdings (Ireland) Limited, a company incorporated in Bermuda. The largest and smallest group into which the results of the company are consolidated is that headed by Allied World Assurance Company Holdings, Limited. Copies of the consolidated group financial statements may be obtained from 27 Richmond Road, Pembroke, Hamilton, HM 08, Bermuda.

15 Related Party Transactions & Cashflow Statement:

Transactions with other companies within the group are not disclosed as the company has taken advantage of the exemption available under Financial Reporting Standard No 8 (Related Party Disclosures) and Financial Reporting Standard No 1, on the basis that the consolidated financial statements of Allied World Assurance Company Holdings, Limited are publicly available as referred to in note 14.

16 Approval of Financial Statements:

The directors approved the financial statements on 30 March 2010.