

# OS AA01

## Statement of details of parent law and other information for an overseas company



Companies House

What this form is for  
You may use this form to accompany your accounts disclosed under parent law

What this form is NOT for  
You cannot use this form to register an alteration of manner of compilation with accounting requirements

FRIDAY



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22/08/2014

#115

COMPANIES HOUSE

### Part 1 Corporate company name

Corporate name of overseas company

Allied World Assurance Company (Europe) Limited

UK establishment number

B R 007249

Filing in this form  
Please complete in typescript or in bold black capitals.

All fields are mandatory unless specified or indicated by \*

\* This is the name of the company in its home state

### Part 2 Statement of details of parent law and other information for an overseas company

#### A1 Legislation

Please give the legislation under which the accounts have been prepared and, if applicable, the legislation under which the accounts have been audited

Legislation

Irish Companies acts 1963 - 2013 and the European

\* This means the relevant rules or legislation which regulates the preparation and, if applicable the audit of accounts.

#### A2 Accounting principles

Company's Insurance undertaking accounts

Accounts

Have the accounts been prepared in accordance with a set of generally accepted accounting principles?

Please tick the appropriate box

- No Go to Section A3  
 Yes. Please enter the name of the organisation or other body which issued those principles below, and then go to Section A3

\* Please insert the name of the appropriate accounting organisation or body

Name of organisation or body

Financial Reporting Council

#### A3 Accounts

Accounts

Have the accounts been audited? Please tick the appropriate box

- No. Go to Section A5  
 Yes Go to Section A4

**OS AA01**

Statement of details of parent law and other information for an overseas company

**A4**

**Audited accounts**

Audited accounts

Have the accounts been audited in accordance with a set of generally accepted auditing standards?

Please tick the appropriate box

No Go to Part 3 'Signature'

Yes Please enter the name of the organisation or other body which issued those standards below, and then go to Part 3 'Signature'

• Please insert the name of the appropriate accounting organisation or body

Name of organisation or body •

*Irish Law and International Standards on auditing (UK and Ireland)*

**A5**

**Unaudited accounts**

Unaudited accounts

Is the company required to have its accounts audited?

Please tick the appropriate box

No

Yes

**Part 3**

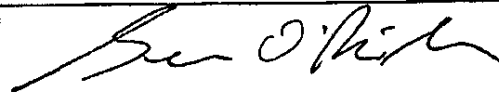
**Signature**

Signature

I am signing this form on behalf of the overseas company

Signature

X



X

This form may be signed by  
Director, Secretary, Permanent representative

# OS AA01

Statement of details of parent law and other information for an overseas company

## Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name
Company name
Address
Postcode
Country/region
Postcode
Country
DX
Telephone

## Checklist

We may return forms completed incorrectly or with information missing

Please make sure you have remembered the following:

- The company name and, if appropriate, the registered number, match the information held on the public Register
- You have completed all sections of the form, if appropriate
- You have signed the form

## Important information

Please note that all this information will appear on the public record

## Where to send

You may return this form to any Companies House address

### England and Wales

The Registrar of Companies, Companies House,  
Crown Way, Cardiff, Wales, CF14 3UZ  
DX 33050 Cardiff

### Scotland

The Registrar of Companies, Companies House,  
Fourth floor, Edinburgh Quay 2,  
139 Fountainbridge, Edinburgh, Scotland, EH3 9FF  
DX ED235 Edinburgh 1  
or LP - 4 Edinburgh 2 (Legal Post)

### Northern Ireland

The Registrar of Companies, Companies House,  
Second Floor, The Linenhall, 32-38 Linenhall Street,  
Belfast, Northern Ireland, BT2 8BG  
DX 481 N R Belfast 1.

## Further information

For further information, please see the guidance notes on the website at [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk) or email [enquires@companieshouse.gov.uk](mailto:enquires@companieshouse.gov.uk)

This form is available in an alternative format. Please visit the forms page on the website at [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)

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**Allied World Assurance Company (Europe) Limited**

**Reports and Financial Statements**

**For the Year Ended 31 December 2010**

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COMPANIES HOUSE

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**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED  
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

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**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED  
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

**DIRECTORS AND OTHER INFORMATION**

**Directors**

Scott Carmilani (USA)  
Hugh Governey (Independent Non-Executive)  
John Redmond (resigned 31 March, 2011)  
Michael Baldwin (UK) (Independent Non-Executive)  
John Clifford (Independent Non-Executive)

**Secretary**

Sean O'Riordan,  
22 The Elm,  
Park View,  
Stepaside,  
Co Dublin

**Assistant 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

**Investment Managers**

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

**Solicitors**

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

**Auditors**

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

**Registered Office**

3<sup>rd</sup> Floor,  
Georges Quay Plaza,  
Georges Quay,  
Dublin 2

**Principal Bankers**

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

**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED**  
**REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

**DIRECTORS' REPORT**

The directors submit their report together with the audited financial statements for the accounting year ended 31 December, 2010

**Principal Activities**

The principal activity of Allied World Assurance Company (Europe) Limited ("the company"), and its branch in the U K is to underwrite first and third party insurance risks, primarily within the European Union

**Review of the Business**

Net income after tax for 2010 was a profit of \$4.5 million for the company, after the retrocession to our Bermuda affiliate Allied World Assurance Company, Ltd ("AWAC Bermuda") compared to a profit of \$1.7 million for the same period in 2009

Market conditions were difficult throughout the year as the global economy struggled to recover from the financial crisis, which began in the fourth quarter of 2008, and there continues to be a significant excess of capital in the insurance market place

Gross premiums written for the year was \$95.8 million, a reduction of \$13.3 million over the prior period's gross written premium of \$109.1 million. The company's underwriting teams experienced significant rate pressure during the year yet they continue to maintain their underwriting discipline. In addition, management have attempted to buck the downward trend, with initiatives in the healthcare area and they are focussed on expanding smaller professional liability type accounts

Ceded premiums in the year were \$86.4 million in total, of which \$53.6 million related to retrocessions to AWAC Bermuda and \$32.8 million related to premium ceded to external re-insurers. In 2009 ceded premiums were \$96.8 million, of which \$70.2 million related to retrocessions to AWAC Bermuda and \$26.6 million related to premium ceded to external re-insurers

Net premiums earned year to date amounted to \$9.4 million compared to \$12.3 million in the prior year

Net claims incurred in the year amounted to \$2.1 million, as against \$7.7 million for the comparable period in 2009. Our results for the year were impacted favourably by positive reserve developments for the 2002 to 2007 accident years

Net acquisition income was \$6.6 million in 2010 compared to \$6.9 million in 2009

Administrative expenses were \$11.4 million in total for the year which compares against \$13.4 million in 2009. The decrease is primarily due to the reduction in employee welfare and other taxes paid

Net investment income year to date amounted to \$5.1 million, compared to \$1.2 million for the same period in 2009. The increase in net investment income was driven by realised gains from the sale of fixed maturity investments as management took action to combat the low interest rate environment

**Profits and Reserves**

Profit retained for the year amounted to US\$4.5 million (2009 Profit US\$1.7 million)  
The directors have not declared a dividend for the year (2009 US\$Nil)

**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 Allied World Assurance Company (Europe) Limited ('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 insure and 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 has been relatively 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, 2010 were impacted by positive reserve developments for the 2002 to 2007 accident years and impacted adversely by strengthening our Casualty reserves for the 2008 accident year. In addition, there was some minor reserve strengthening for our International Property book for the 2009 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.



**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED**  
**REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

**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, 2010, our top five brokers represented approximately 77% 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 2010**

**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 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 2010**

**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 Central Bank 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.

(xv) **Compliance with Corporate Governance Code for Credit Institutions and Insurance Undertakings -**

AWAC Europe will be subject to the Corporate Governance Code for Credit Institutions and Insurance Undertakings, with effect from 1 January, 2011, but will not fall in scope of the additional requirements for major institutions.

**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 2010 to the date of this report unless otherwise stated. The directors holding office at 31 December 2010 held no interests in the company but held the following interests in its ultimate parent company Allied World Assurance Company Holdings, AG ("AWAC Holdings")

	Ordinary Shares (number) As at 31 Dec 2010	Ordinary Shares (number) As at 31 Dec 2009
Hugh Governey	0	0
John Redmond (resigned 31 March, 2011)	13,157	31,488
Michael Baldwin	0	55,333
John Clifford	0	0
Scott Carmilan	173,567	166,159

**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 profit or loss of the company for that period. 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

**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED  
REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

**DIRECTORS' REPORT – Continued**

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.

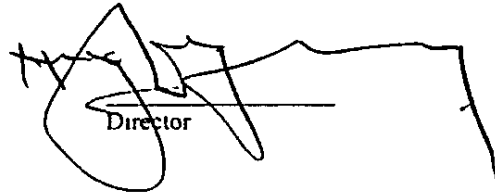
**Books of Account**

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

29 March 2011  
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 2010 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Accounting Policies and the related notes 1 to 18. 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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**INDEPENDENT AUDITOR'S 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 2010 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 2010 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 *29 March 2011*

**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED**  
**REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

**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 2010**

**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, 2010, a 5% change in net IBNR reserves would cause net losses and loss expenses to change by \$2.3 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 revenue, costs and non-monetary assets at the exchange rates ruling at the date of



**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED**  
**REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

**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\$)

**Fixed Assets**

Depreciation is provided on fixed assets over their estimated useful lives as follows

Information technology – 3 years

Furniture and fittings – 5 years

Leasehold improvements – 5 years

**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED**  
**REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

**PROFIT AND LOSS ACCOUNT  
TECHNICAL ACCOUNT**

	Notes	31 Dec 2010 US\$	31 Dec 2009 US\$
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	2	95,847,808	109,123,861
Outward reinsurance premiums		<u>(86,426,806)</u>	<u>(96,832,776)</u>
Net premiums written		<u>9,421,002</u>	<u>12,291,085</u>
Change in the gross provision for unearned premiums	12	4,956,960	(1 307,898)
Change in the provision for unearned premiums, reinsurers' share	12	<u>(3,981,066)</u>	<u>1,817,102</u>
Change in the net provision for unearned premiums		<u>975,894</u>	<u>509,204</u>
<b>Earned premiums, net of reinsurance</b>		<u><b>10,396,896</b></u>	<u><b>12,800,289</b></u>
<b>Allocated investment return transferred from the non- technical account</b>		<u><b>5,065,604</b></u>	<u><b>1,174,280</b></u>
<b>Claims incurred, net of reinsurance</b>			
<b>Claims paid</b>			
Gross amount		(35,478,692)	(12,800,053)
Reinsurers' share		<u>31,198,736</u>	<u>11,640,392</u>
Net claims paid		<u>(4,279,956)</u>	<u>(1,159,661)</u>
<b>Change in the provision for claims</b>			
Gross amount	12	(5,505,975)	(40,513,533)
Reinsurers' share	12	<u>7,658,031</u>	<u>33,973,474</u>
Change in the net provision for claims		<u>2,152,056</u>	<u>(6,540,059)</u>
<b>Claims incurred, net of reinsurance</b>		<u><b>(2,127,900)</b></u>	<u><b>(7,699,720)</b></u>
<b>Net operating expenses</b>	3	<u><b>(7,001,530)</b></u>	<u><b>(4,059,126)</b></u>
<b>Balance on the technical account for non life insurance business</b>		<u><b>6,333,070</b></u>	<u><b>2,215,720</b></u>

**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED**  
**REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

**PROFIT AND LOSS ACCOUNT**  
**NON-TECHNICAL ACCOUNT**


	Notes	31 Dec 2010 US\$	31 Dec 2009 US\$
<b>Balance on the technical account for non life insurance business</b>		6,333,070	2,215,720
Investment income	4	5,065,604	1,174,280
Allocated investment return transferred to the non life insurance technical account		<u>(5,065,604)</u>	<u>(1,174,280)</u>
<b>Profit on ordinary activities before taxation</b>	5	6,333,070	2,215,720
Tax on profit on ordinary activities	6	<u>(1,818,613)</u>	<u>(534,955)</u>
<b>Profit on ordinary activities after taxation</b>		<u>4,514,457</u>	<u>1,680,765</u>


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

Profit 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 29 March 2011, and signed on its behalf by

Director 

Director 

**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED**  
**REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

**BALANCE SHEET**

	Notes	31 Dec 2010 US\$	31 Dec 2009 US\$
<b><u>ASSETS</u></b>			
<b>Investments</b>			
Debt securities and other fixed income securities	7	98,356,186	106,372,039
Deposits with credit institutions		<u>21,916,803</u>	<u>11,016,077</u>
		<u>120,272,989</u>	<u>117,388,116</u>
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	12	51,582,985	55,564,051
Claims outstanding	12	<u>365,654,301</u>	<u>357,996,270</u>
		<u>417,237,286</u>	<u>413,560,321</u>
<b>Debtors</b>			
Debtors arising from insurance operations	8	14,729,177	20,029,108
Other debtors	8	<u>4,063,343</u>	<u>5,215,967</u>
		<u>18,792,520</u>	<u>25,245,075</u>
<b>Other assets</b>			
Tangible assets	17	495,385	547,780
Cash at bank and in hand		<u>394,615</u>	<u>701,637</u>
		<u>890,000</u>	<u>1,249,417</u>
<b>Prepayments and accrued income</b>			
Accrued interest		<u>889,434</u>	<u>1,719,235</u>
<b>Total Assets</b>		<u><u>558,082,229</u></u>	<u><u>559,162,164</u></u>

**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED**  
**REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

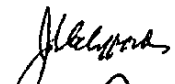
**BALANCE SHEET (continued)**

	Notes	31 Dec 2010 US\$	31 Dec 2009 US\$
<b><u>LIABILITIES</u></b>			
<b>Capital and reserves</b>			
Called up share capital	9	5,000,000	5,000,000
Capital contribution	11	45,000,000	45,000,000
Retained profit	11	<u>9,299,832</u>	<u>4,785,375</u>
<b>Shareholders' funds</b>	11	<b><u>59,299,832</u></b>	<b><u>54,785,375</u></b>
<b>Technical provisions</b>			
Provision for unearned premiums	12	58,185,511	63,142,471
Claims outstanding	12	<u>417,455,769</u>	<u>411,949,795</u>
		<u>475,641,280</u>	<u>475,092,266</u>
<b>Creditors</b>			
Creditors arising out of insurance operations	13	10,152,495	21,216,123
Other creditors including taxation and social security	13	<u>9,994,520</u>	<u>4,620,919</u>
		<u>20,147,015</u>	<u>25,837,042</u>
<b>Deferred acquisition income</b>		<u>2,994,102</u>	<u>3,447,481</u>
<b>Total Liabilities</b>		<b><u>558,082,229</u></b>	<b><u>559,162,164</u></b>

The accompanying notes form an integral part of these financial statements

The financial statements were approved by the Board of Directors on 29 March 2011, and signed on its behalf by

Director



Director



**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED**  
**REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2010**

**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, 14 15 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 10			31 Dec 09		
	Casualty US\$	Property US\$	Total US\$	Casualty US\$	Property US\$	Total US\$
Gross premium written						
- risks located in EU	88,172,212	4,818,469	92,990,681	97,383,609	10,386,138	107,769,747
- risks located outside EU	2,857,127	0	2,857,127	1,354,113	0	1,354,114
	91,029,339	4,818,469	95,847,808	98,737,722	10,386,138	109,123,861
Change in the provision for UEPR	1,618,085	3,338,875	4,956,960	(1,599,849)	291,952	(1,307,897)
Gross premium earned	92,647,424	8,157,343	100,804,767	97,137,873	10,678,090	107,815,963
Gross claims incurred	(48,887,568)	7,902,898	(40,984,670)	(40,957,442)	(12,356,143)	(53,313,585)
Net operating expenses	(6,713,209)	(288,321)	(7,001,530)	(3,383,450)	(675,676)	(4,059,126)
Gross technical result	37,046,647	15,771,920	52,818,567	52,796,981	(2,353,729)	50,443,252
Reinsurance balance	(38,496,710)	(13,054,391)	(51,551,101)	(351,679)	(49,050,133)	(49,401,812)
Allocated investment return	4,847,165	218,439	5,065,604	1,062,515	111,765	1,174,280
Net technical result	3,397,102	2,935,968	6,333,070	53,507,817	(51,292,097)	2,215,720

Gross written premium relates to contracts in the following geographical locations

	2010 US\$	2009 US\$
Republic of Ireland	10,487,638	9,608,293
Other EU member states	82,503,043	98,161,455
Other countries	2,857,127	1,354,113
<b>Total</b>	<b>95,847,808</b>	<b>109,123,861</b>

**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED**  
**REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2010**  
**(continued)**

<b>3 Net operating expenses</b>	<b>31 Dec 2010</b>	<b>31 Dec 2009</b>
	<b>US\$</b>	<b>US\$</b>
Administrative expenses	11,374,713	13,370,392
Foreign exchange loss/ (gain)	2 463,383	(2,431,961)
Broker commissions	6 144,189	6,618,416
Reinsurers share of broker commissions	(12,527,376)	(13,830,234)
Movement in deferred acquisition costs	(453 378)	332,513
	<u>7,001,531</u>	<u>4,059,126</u>
The company's employment costs for all employees comprise -		
Stock compensation expense	760,291	1,116 496
Wages and salaries	4,116,088	4,340,510
Social welfare costs	986,757	694,058
Pension costs	378,693	411,681
	<u>6 241,829</u>	<u>6,562,745</u>

Included in administrative expenses are payments made to a defined contribution pension scheme on behalf of employees during the year amounting to \$378,693 (2009 \$411,681) \$0 (2009 \$12,323) was payable at the year end

The average number of persons employed by the company during the year was 27 (2009 26)

<b>4 Investment income</b>	<b>31 Dec 2010</b>	<b>31 Dec 2009</b>
	<b>US\$</b>	<b>US\$</b>
Fixed maturity investments	5,044,825	1,108,137
Cash and cash equivalents	20,779	66,143
	<u>5,065,604</u>	<u>1 174,280</u>

Changes in unrealised (losses)/ gains were (\$2,910 775) for the year ended December 31, 2010 and \$404,100 for the year ended December 31, 2009 Net realised gains/ (losses) from sales of fixed maturity investments were \$4 854,412 for the year ended December 31, 2010 and (\$1,005,038) for the year ended December 31, 2009

<b>5 Profit/(Loss) on Ordinary Activities before Tax</b>	<b>31 Dec 2010</b>	<b>31 Dec 2009</b>
	<b>US\$</b>	<b>US\$</b>
Profit/(Loss) on ordinary activities before tax is stated after charging		
Auditors' remuneration	217,127	370,752
Directors' fees	66,466	70,438
	<u>283,593</u>	<u>441,190</u>

Directors' fees are for independent non-executive directors only Directors' emoluments for the year ended December 31, 2010 and 2009 were \$606,067 and \$911,073 (pertaining to one Executive Director)

In accordance with Irish Company Law Statutory Instrument 220 ('SI 220'), the following is a description of the categories of audit fee for the company as at 31st December 2010 and 2009

	<b>31 Dec 2010</b>	<b>31 Dec 2009</b>
	<b>US\$</b>	<b>US\$</b>
Audit of individual accounts	100,379	108,584
Other assurance services	75,364	75,767
Total audit fees	<u>175,743</u>	<u>184,351</u>

**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED**  
**REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2010**  
**(continued)**

<b>6 Tax on profit on ordinary activities</b>	<b>31 Dec 2010</b>	<b>31 Dec 2009</b>
	<b>US\$</b>	<b>US\$</b>
Profit on ordinary activities before tax	<u>6,333,070</u>	<u>2,215,720</u>
Corporation tax charge at the standard rate of 12.5%	791,634	276,965
Effects of		
Non deductible expenses	140,275	52,618
Capital allowances	(53,873)	(40,774)
Foreign tax deduction	(878,035)	(184,543)
Tax provision on UK branch profits	1,971,817	413,377
Prior year under provision	0	(13,639)
Movement in deferred tax	(153,205)	30,951
Corporation tax charge	<u>1,818,613</u>	<u>534,955</u>

<b>7 Debt Securities</b>	<b>2010</b>	<b>2009</b>
	<b>US\$</b>	<b>US\$</b>
Debt securities and other fixed income securities are all on recognised stock exchanges		
Opening balance	106,372,039	90,412,911
Additions	84,962,594	39,281,376
Disposals	(95,065,944)	(26,176,325)
Valuation adjustment/ amortisation/ foreign exchange	2,087,497	2,854,077
	<u>98,356,186</u>	<u>106,372,039</u>

The amortised cost of debt securities and other fixed income securities held is \$93,907,142 (2009 \$99,402,705)

<b>8 Debtors</b>	<b>2010</b>	<b>2009</b>
	<b>US\$</b>	<b>US\$</b>
Debtors arising from insurance operations		
Amounts due from external parties	<u>14,729,177</u>	<u>20,029,108</u>
Other debtors		
Deferred tax asset	745,535	592,331
Prepayments and other debtors	464,788	630,329
Amounts due from affiliates	<u>2,853,020</u>	<u>3,993,307</u>
	<u>4,063,343</u>	<u>5,215,967</u>

<b>9 Equity Share Capital</b>	<b>2010</b>	<b>2009</b>
	<b>US\$</b>	<b>US\$</b>
Authorised		
100,000,000 ordinary shares of US\$1 each	<u>100,000,000</u>	<u>100,000,000</u>
Issued		
5,000,000 ordinary shares of US\$1 each	<u>5,000,000</u>	<u>5,000,000</u>

Each ordinary share is issued with one voting right attached



**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED**  
**REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2010**  
(continued)

**10 Employee Benefit Plans**

*a) Employee stock option plan*

Allied World Assurance Company Holdings, AG ("AWAC Holdings") Third Amended and Restated 2001 Employee Stock Option Plan (the "Plan") allows up to 4,000,000 common shares of AWAC Holdings to be issued. Options under the plan are exercisable in certain limited conditions, expire after 10 years, and generally vest pro-rata over four years from the date of grant. The exercise price of options issued shall not be less than 100% of the fair market value of the common shares of AWAC Holdings on the date the option award is granted.

	<u>2010</u>	<u>2009</u>
Outstanding at beginning of year	70,672	78,573
Granted	12,505	14,624
Exercised	(38,684)	(11,420)
Forfeited	(3,875)	(3,605)
Transfers In/ (Out)	(500)	(7,500)
Expired	(437)	--
Outstanding at end of year	<u>39,681</u>	<u>70,672</u>
Weighted average exercise price per option	<u>\$32.64</u>	<u>\$29.65</u>
Fair value at end of year	<u>\$692,394</u>	<u>\$700,259</u>

Assumptions used in the option-pricing model are as follows:

	<u>Options granted during the year ended December 31, 2010</u>	<u>Options granted during the year ended December 31, 2009</u>
Expected term of option	5.47 years	4.75 years
Weighted average risk-free interest rate	2.65%	2.03%
Weighted average expected volatility	42.35%	42.96%
Dividend yield	1.25%	1.71%
Exercise price	<u>\$46.05</u>	<u>\$39.02</u>
Weighted average share price	<u>\$49.92</u>	<u>\$41.87</u>

The expected term of the option is based on the historical terms of options granted since the inception of AWAC Holdings and the expected volatility is based on the volatility of the fair market value of AWAC Holdings' common shares. The Company has assumed an annual forfeiture rate of 6.37% for options granted in determining the compensation expense over the service period.

*b) Stock incentive plan*

Allied World Assurance Company Holdings, AG ("AWAC Holdings") Third Amended and Restated 2004 Stock Incentive Plan (the "Stock Incentive Plan") provides for grants of restricted stock, 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.

	<u>2010</u>	<u>2009</u>
Outstanding RSUs at beginning of year	44,630	51,695
RSUs granted	--	5,624
RSUs fully vested	(18,712)	(8,022)
RSUs forfeited	(8,751)	(3,875)
Transfers In/ (Out)	--	(792)
Outstanding RSUs at end of year	<u>17,167</u>	<u>44,630</u>
Fair value at end of year	<u>\$1,020,429</u>	<u>\$2,056,104</u>

**ALLIED WORLD ASSURANCE COMPANY (EUROPE) LIMITED**  
**REPORTS & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2010**  
**(Note 10 continued)**

The compensation expense for the RSUs is based on the fair market value of AWAC Holdings' common shares at the time of grant. The Company has assumed an annual forfeiture rate of 4.98% for RSUs granted in determining the compensation expense over the service period.

*c) Long-term incentive plan*

The Long-Term Incentive Plan ("LTIP") provides for performance based equity awards to key employees in order to promote the long-term growth and profitability of the Branch. Each award represents the right to receive a number of common shares of AWAC Holdings 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 of AWAC Holdings may be issued under the LTIP.

	<u>2010</u>	<u>2009</u>
Outstanding LTIP awards at beginning of year	10,065	17,869
LTIP awards granted	-	-
Granted due to achievement of performance criteria	3,863	7,410
LTIP awards vested	(11,589)	(15,215)
LTIP awards forfeited	-	-
Transfers In/ (Out)	-	-
Outstanding LTIP awards at end of year	<u>2,339</u>	<u>10,065</u>
Fair value at end of year	<u>\$139,030</u>	<u>\$459,842</u>

The compensation expense for the LTIP is based on the fair market value of AWAC Holding's common shares at the time of grant.

*d) Cash-equivalent stock awards*

During 2010 and 2009, as part of the annual year-end compensation awards, Allied World Assurance Company Holdings, AG ("AWAC Holdings") granted both stock-based awards and cash-equivalent stock awards. The cash-equivalent awards were granted to employees who received RSU and LTIP awards and were granted in lieu of granting the full award as a stock-based award. The cash-equivalent RSU awards vest pro-rata over four years from the date of grant. The cash-equivalent LTIP awards vest after a three-year performance period. The compensation expenses for the cash-equivalent awards are based on the fair market value of AWAC Holdings' common shares as of the end of the reporting period and the total awards outstanding.

The stock related compensation expense relating to cash equivalent awards for the year ended December 31, 2010 and 2009 was \$179,917 and \$60,244 respectively.

**11 Movement in equity shareholders' funds**

	Share Capital US\$	Capital Contribution US\$	Profit & Loss Account US\$	Total US\$
Balance at 1 January 2009	5,000,000	45,000,000	3,104,609	53,104,609
Additional paid in capital	-	-	-	-
Profit on ordinary activities after tax	-	-	1,680,766	1,680,766
Balance at 1 January 2010	<u>5,000,000</u>	<u>45,000,000</u>	<u>4,785,375</u>	<u>54,785,375</u>
Profit on ordinary activities after tax	-	-	4,514,457	4,514,457
Balance as at 31 December 2010	<u>5,000,000</u>	<u>45,000,000</u>	<u>9,299,832</u>	<u>59,299,832</u>

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2010**  
(continued)

<b>12 Technical Provisions</b>	<b>Gross</b>	<b>Reinsurance</b>	<b>Net</b>
Claims outstanding	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
At 1 January 2010	411,949,795	(357,996,270)	53,953,525
Movement in provision	5,505,974	(7,658,031)	(2,152,057)
At 31 December 2010	<u>417,455,769</u>	<u>(365,654,301)</u>	<u>51,801,468</u>
Unearned premium reserve	<b>Gross</b>	<b>Reinsurance</b>	<b>Net</b>
	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
At 1 January 2010	63,142,472	(55,564,051)	7,578,421
Movement in the provision	(4,956,961)	3,981,066	(975,895)
At 31 December 2010	<u>58,185,511</u>	<u>(51,582,985)</u>	<u>6,602,526</u>

The results for the year ended December 31 2010 included \$23,793,139 gross and \$2,786,653 net positive reserve developments for the accident years 2002 to 2009

<b>13 Creditors</b>	<b>2010</b>	<b>2009</b>
	<b>US\$</b>	<b>US\$</b>
Creditors arising out of reinsurance operations		
Third party creditors	6,579,168	9,042,303
Amounts due to affiliates	3,573,327	12,173,820
	<u>10,152,495</u>	<u>21,216,123</u>
Other creditors including taxation and social security		
Corporation tax	1,135,474	0
Amounts due to affiliates	6,933,188	2,094,935
Other creditors	1,925,858	2,525,984
	<u>9,994,520</u>	<u>4,620,919</u>

**14 Forward Contracts**

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.

The fair value of forward foreign currency contracts (included in other debtors) was \$42,035 in 2010. In 2009 the fair value of forward foreign currency contracts (included in other creditors) was (\$888,845).

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

<b>Amount Purchased</b>	<b>Amount Sold</b>	<b>Forward Rate Agreed</b>	<b>Maturity Date</b>
EUR 6,000,000	USD 8,224,526	1.336280	21 January 2011
USD 8,507,820	GBP 5,000,000	1.552219	21 January 2011
AUD 2,000,000	USD 1,944,380	1.015393	21 January 2011

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE ACCOUNTING YEAR ENDED 31 DECEMBER 2010**  
**(continued)**

**15 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), Ltd, 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, AG. Copies of the consolidated group financial statements may be obtained from Lindenstrasse 8, 6340 Baar/ZG, Switzerland.

**16 Related Party Transactions & Cashflow Statement:**

Transactions with other companies within the group and cash flow statements 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 (Cash Flow Statements), on the basis that the consolidated financial statements of Allied World Assurance Company Holdings, AG are publicly available as referred to in note 15.

<b>17 Tangible Assets.</b>	<b>Furniture and fittings US\$</b>	<b>Information technology US\$</b>	<b>Leasehold improvements US\$</b>	<b>Total US\$</b>
Cost				
As at 1 January 2010	334,802	1,375,977	2,182,038	3,892,817
Additions	-	294,519	178,583	473,101
As at 31 December 2010	334,802	1,670,495	2,360,621	4,365,918
<b>Depreciation</b>				
As at 1 January 2010	306,053	1,098,670	1,940,313	3,345,037
Charge for the year	9,532	210,532	305,432	525,496
As at 31 December 2010	315,586	1,309,202	2,245,745	3,870,533
Net book value at 31st December 2010	19,216	361,293	114,876	495,385
Net book value at 31st December 2009	28,749	277,306	241,725	547,780

**18 Approval of Financial Statements:**

The directors approved the financial statements on 29 March 2011.